THE FREEMAN

IDEAS ON LIBERTY

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AUGUST 1988

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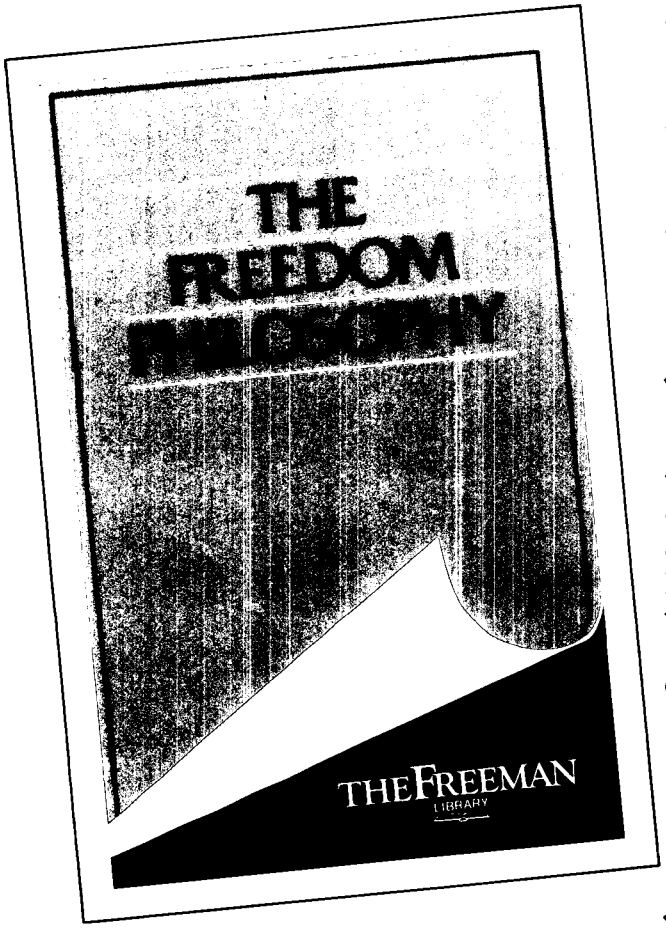

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THE FREEMAN
IDEAS ON LIBERTY

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IDEAS ON LIBERTY

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PERSPECTIVE

On the Inside

The transmission and use of so-called inside information has been made to seem invidious by the recent hit movie *Wall Street*. Passing "inside" information is, in itself, a mere exercise of free speech and a benign one at that, since the information is true and the spread of the truth is no evil. In the movie, though, the information was gained by filial betrayal and by cloak-and-dagger operations that would embarrass the CIA.

Likewise, the use of true information to guide one's actions is paradigmatic human rationality. So-called market manipulation—buying low and selling high—is no more than any businessman does, and the better his knowledge of when something is undervalued, the greater will be his profit. Moreover, it is impossible to draw a clear line demarcating "inside" information from other information. In the movie, though, the information is used for both revenge and betrayal—to hurt people.

Movies like *Wall Street*, as entertaining as they may be, do little to enhance public understanding about the realities of the business world. Instead, they create undeserved animus and lead to erroneous generalizations. How unfortunate.

—JOSEPH S. FULDA
Hofstra University

Overcoming Racism

I have found that if you can make yourself indispensable to people, if you can produce a product that is better than any other product, if you can give people something that they cannot get anywhere else, they will forget about race and they will forget about everything of that nature. I don't run into a lot of prejudice with anyone if I'm making money for them; I don't have any problem with my printer; I don't have any problem with anybody if they need me. And so what we need to do, we need to make ourselves indispensable. We need to be so good at what we do that people need us, and if they need us they will support us.

—JOHN H. JOHNSON, Chairman
The Johnson Publishing Company
publisher of *Ebony* and *Jet*

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Steel Blues, Part I

In 1984, the Reagan administration persuaded major steel exporters to restrict their shipments to the U.S. market. The goal was to reduce the share of steel imports from 26 per cent to 22 per cent of total domestic sales and, in the process, to create jobs in the beleaguered U.S. steel industry.

Did the plan work? That depends on how you look at it. According to a study by Washington University economist Arthur Denzau ("How Import Restraints Reduce Employment," published by the Center for the Study of American Business), by 1986, the "voluntary" trade restrictions had added an estimated 16,900 jobs to the U.S. steel industry.

But the restrictions also raised steel prices, making it more difficult for U.S. auto makers and other American producers who use steel to compete in world markets. Because of the trade restrictions, Denzau found, the U.S. metal fabrication industry lost 26,000 jobs, nonelectrical machinery lost 11,800 jobs, electrical machinery suffered 4,600 job losses, and transportation equipment lost 7,600 jobs.

The net employment effect of the trade restrictions: the loss of more than 35,000 American jobs. —BJS

Steel Blues, Part II

Caterpillar Inc. of Peoria, Ill., is having trouble getting the steel it needs to build tractors for a $2.2 billion export business that employs 14,000 people. The company has asked U.S. mills for more steel, but the mills cannot deliver it. Nor can Caterpillar get steel from overseas, because U.S. quotas imposed in 1984 limit imports. The shortages are now constricting Caterpillar's exports. . . .

Steel import quotas are forcing Davis Walker Corp., the largest steel wire maker on the West Coast, to pay a 10 percent to 15 percent premium over world prices on its steel. . . .

Scotchman Industries Inc., a machine tool maker in Philip, S.D., has seen steel prices from domestic mills rise 17 percent to 25 percent in the past year. . . .

Quota-induced price increases are filtering through to housing prices, says John P. Hayes, chairman of National Gypsum Co. of Dallas, because steel is a large component in construction. "If we have a demand for, say, 1.5 to 1.6 million houses a year, and we can only sell 1.3 to 1.4 million because of high prices, why that means all of those jobs for people to build to that demand level won't be there," he says.

—*Insight*, March 14, 1988

The Unseen Governors

Several years ago I began asking students in my college class to tell me who keeps order in Grove City, Pennsylvania, a town of 10,000, when college is in session. They invariably responded, "the local police," or "the Pennsylvania State Police," or "the campus security officers," and then, sometimes, "the Dean of Men." The students were convinced that societal peace and order were produced almost entirely by what might be called the *visible* governors—most often officials of the State. But then I pointed out that in our town, if just 500 citizens decided to do wrong, our dozen local policemen, a handful of security guards and the officers of the closest state police barracks ten miles away would be hard pressed to bring the five per cent of the population under control. "How," I ask them, "could order ever be maintained if all 10,000 people set out to disobey the law?" The orderly existence we enjoy in towns like Grove City is not the product of the threat of statist force. The orderly and free society we have is due primarily to the presence of unseen governors—*not* primarily to billy clubs or the rotating red light of squad cars. To emphasize, order in communities results from the *inhibiting* (dare I use that now disreputable word) restraints of morals, religious convictions, conscientious scruples, and the regularizing and meliorating bonds of custom, tradition, usage, and observance.

—JOHN A. SPARKS
Grove City College

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THE FREEMAN
IDEAS ON LIBERTY

The Border Closed at Midnight

by Dagmar M. Anderson

With a jerk, the train slowly began leaving the station. We passed houses, factories, railway crossings, just barely visible in the darkness. I looked out the window beaded with raindrops, saying good-bye. The gentle swaying of the train soon became monotonous.

If anyone had told me three months earlier that my family and I would be fleeing our native Czechoslovakia, with all our belongings packed in five suitcases, and an uncertain future ahead, I would have told him that was as unbelievable as the day it all began . . . August 21st, 1968.

My ears began attending to a distant sound. It was coming closer. The closer it got, the louder it got. What was it? I had never heard that before. Then my whole room began to shake. An earthquake? I was fully awake now. I frantically dove out of bed to look out the window. It was still dark outside. Leaning over the edge I had to plug my ears because the noise was so loud. A long line of large dark silhouettes was slowly creeping up our one-way street. Tanks? That's what they looked like. Army tanks. What was going on? Didn't they know it was 3 a.m. and people were trying to sleep?

Mrs. Anderson, who lives in Port Coquitlam, British Columbia, is a full-time college student, an employee of the Douglas & McIntyre Publishing Company, and the mother of four children.

The author dedicates this article to the memory of her grandfather, Eemil Skala.

I ran to the mantel to turn on the radio. Silence. And then it hit me: *War! This must be war! Grandfather! I must wake up grandfather. He'll know!*

I ran out of my room, through the dark kitchen, through the dining room, the living room, to his bedroom, which faced the back yard. He was a sound sleeper; he wouldn't wake up even if the tanks were to go right by his bed.

"Grandfather!" I shook him. "Wake up, Grandfather! I think it's war! There are tanks in the street!"

He put his glasses on, and we both ran through the dark house, back to my room.

"Those look like Polish tanks." He was remembering World War II. "What do they want here?"

The radio broke its silence. "Citizens . . . citizens . . . please go to work as usual . . ." The reception was really bad. "Please, remain calm . . . There must be an explanation for their being here . . . This must be some sort of a mistake . . . We are still unable to reach the President. . . ." Static and crackling broke in. It was a woman's voice. Not the usual announcer. Her voice shook. "We have had reports from everywhere across the country . . . There are tanks all over . . . Please, remain calm . . ." Silence. No commercials. No music. Nothing. Just silence.

Grandfather, with his head down and his broad shoulders stooped, dropped his weight into a chair. He was speechless. I stared at him. The great man I admired so much now sat before me, defeated. I put my arms around his big

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WIDE WORLD

Tanks move into Wenceslas Square in Prague, August 21, 1968.

wide neck and sat on his lap. We just sat there, silently, and we cried.

All night long we listened to the crackling voice of the radio announcer. There was no real news until 8 a.m.: "Friends . . . neighbors . . . Around midnight last night . . . five countries . . . crossed over into our country . . . They are . . . East Germany . . . Bulgaria . . . Poland . . . Hungary . . . and Russia . . . We still don't know why they are here . . . There have been no reports of casualties or injuries to our citizens . . . We will let you know more, as soon as we can . . . as long as we are able to . . ."

For the rest of the day, the long loud lines of tanks kept snaking their way up the streets of my grandfather's home town, heading for Prague, 80 kilometers to the south.

All my life I had been coming to this place to spend my summer vacations, spring breaks, and Christmas. I was practically raised by my grandparents. Everyone in town knew me as Mr. Skala's granddaughter. My grandfather was an important man in this town. Everyone respected him and listened to his advice. Grandma's nickname was "Angel"—because that is what she was. She spoiled my brothers and me the way no one else did. Life with the two of them was like a vacation every day. We were always happy here.

Now, I didn't understand anything that was going on around me. There were no answers to any of my questions.

One week later, my brothers and I were returning home to Prague on the bus. We were very fortunate to be on the bus. The closer we got to the city, the more soldiers became visible, the more tanks, the more guns. Prague looked as though it had been through a war. Windows on buildings were shattered from bullet holes; the National Museum at the crown of Wenceslas Square got the worst of it. The magnificent stonework, centuries old, on the face of the building was practically destroyed. Everywhere I looked were barricades, sidewalks broken up, cobblestones on the streets turned upside down. There were signs of war everywhere we looked, and yet we were told this was no war. There were words painted on buildings: "Go home . . . We don't want you here . . . Go back to where you came from."

Our national army's weapons had been con-

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fiscated. We were left defenseless, empty-handed. Everyone was ready to fight. But we were told to stay calm, to do nothing. During the previous week our radio and television stations had been taken over, even though it took a while to find out where they were. Everything stood still. No one was coming in; no one was leaving. Curfew was at 8 p.m. No one was allowed on the streets, not even emergency vehicles. Our borders were closed.

Many people were shot while trying to fight back. Poor fools. Throwing cobblestones at the tanks. The whole country was in confusion; no one had a straight answer.

The next week I was supposed to go back to high school. All summer long I'd looked forward to it. Now, I didn't even know if I'd ever see my school or my friends again. I wondered how long this was going to last. *Why are they here?*

Two months later. November 8th. All schools had opened on time in September. Things were kept as normal as could be expected, but nothing was really changed. Tanks were still everywhere. Shattered windows hadn't been replaced. The curfew was now at 10 p.m. instead of 8. There were great shortages of food. Lineups for bread, milk, eggs, and fruit started at five a.m. There was no meat available at all. People were getting used to the tanks and the soldiers, but there were still no explanations for why they had come. We hadn't heard from our President yet.

I began to notice my uncles and aunts coming over for short, discreet visits. Each one of them walked away with one of our appliances or a piece of our furniture. I didn't know what was going on. Why was my mother giving away all our stuff? Everyone talked in hushed voices. I heard my parents say that our relatives came over one at a time so the neighbors wouldn't get suspicious. Of what? After all, they were our relatives, and they had always come over before. So why would anyone be suspicious of that?

One night I saw my mother's friend from next door, who was a seamstress, sewing an extra pocket into the lining of my father's new leather coat, under the existing pocket. Wow! My father pulled out a thick stack of money from the bottom drawer of the bureau. I had never seen so much money in my life. It took him a long time to count it all out. He took out several bills and handed the rest to our neighbor, who expertly sewed it into the secret pocket.

That weekend my grandparents came to visit. I was so happy to see them again. I noticed grandfather's embrace of me was extra long. He almost squeezed life right out of me. Grandmother cried a lot, and hugged me a lot. Why was everybody so upset? It felt like somebody had died. They all walked around with long faces. No one was loud as they usually were whenever they got together; everyone whispered. There was no happiness, no laughter, no jokes.

When my grandparents were leaving Sunday night, they couldn't say good-bye to us. I smiled at them and said: "Grandma, Christmas is only five weeks away. We're coming over like we always do. So why the waterfalls? You're acting as if you'll never see us again!" That did it! I didn't understand what I had said wrong. Confused, I waved as they walked away toward the bus station.

On the morning of Wednesday, November 13th, as I was getting ready to go to school, my mother said to us children: "You're not going to school today. You are going to stay at home." *I am? Why?* I wasn't going to argue. I was happy to stay home. "Great!" I replied. Then my father poked his head into my bedroom, which I shared with my brothers: "How'd you like to go shopping with me?"

"Oh, I'd love to!" I jumped up and ran to him to give him a big hug. It was the first time in months I had seen a smile on his face. It was the first time he had ever asked me to go shopping with him.

We took a streetcar downtown. At a department store we purchased five new suitcases and some odds and ends. Walking home my father said to me, handing me a 50 *crone* bill, "Here, go get yourself something, anything you want."

I never had had so much money before!

I kissed him, "Really! . . . Oh, wow, thank you, father." Being a typical teenager, I

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headed for the first record store we came up to and spent all the money on records. My father didn't object. That in itself was hard to believe.

Arriving at home with all our purchases, we were greeted by my brothers, and my mother's worried face. We each were given a suitcase. "Pack whatever you want in it, whatever is dearest to you." My mother spoke softly.

"Where are we going? On a trip? Where to? For how long?"

"Don't ask, just do what I said."

This is great! I wonder where we're going? I packed all my records, my favorite books, my photo albums, some of my personal things, and only a few pieces of clothing.

At 4 p.m. we listened to the news. The border was open again. For now.

We arrived at the train station at 6 p.m. Our train was scheduled to leave at 7:30 p.m. We walked to the station restaurant (I had been to a restaurant only four or five times before), and had a nice dinner.

We boarded the train at 7 p.m. Our sleeping compartment, which we had all to ourselves, had six beds in it. We'd be able to sleep, as we were to travel all night long.

It was then that our parents revealed our destination to us. It was Austria, actually, Vienna, the capital city. We were going there to visit our Aunt Martha. I never knew we had an aunt named Martha in Vienna. When I questioned it, my father said, "Hush up!" I remained quiet. My father wore his new leather coat, which he carefully hung up by the window.

The swaying of the train must have rocked me to sleep. Suddenly, my sleep was interrupted by a flashlight pointed directly into my face. From behind the bright light I heard: "Passports, please . . . passports, please." Poised to strike, the conductor officially scrutinized each document, comparing our faces to the photographs in the passports.

"Where are you going?" He directed his question to me.

"To Vienna, to visit my Aunt Martha."

"Have you ever been there before?"

"No, but I can't wait! . . . See? . . . I even brought my ice skates!" I dangled them in front of his face. A smirk briefly appeared in the corner of his mouth.

He proceeded to search every piece of our luggage, our purses, even our pockets, systematically, very officially. My heart stopped pounding, lodging itself in my throat for a split second, when he frisked my father's leather coat!

"Everything seems to be in order here . . . Thank you!" He saluted, turned, and walked toward the next compartment. I slowly released my breath, unaware till then that I was holding it. I could see the relief in my parents' faces as they looked at each other. We hugged and slowly began to relax and make ourselves comfortable again.

The train stood motionless as the conductor proceeded to check the rest of the compartments on the train in the same manner as he had ours. The inspection took a long time. It was 11:30 p.m.

We overheard a group of young people in the compartment next to ours laughing and shouting as soon as the conductor left them. "This is fantastic! Now we can go anywhere we want! Can you imagine! Australia, America, Africa, Canada! Anywhere we want! We'll never come back here!" I was shocked to hear them talk this way. I wondered if the conductor heard them as well.

As soon as he finished the inspection of the entire train, he came back. With his index finger he motioned them over, and in the deep voice of authority said: "Would you all come along with me, please!"

My father whispered to my mother: "That's it for them! They'll never get another passport as long as they live! It wouldn't surprise me if they got thrown in prison!"

We arrived in Vienna at 8 a.m., stored all our luggage in lockers, and headed straight for the Canadian Embassy. We were among hundreds of refugees. Most of them were single people, or married without children. We were the largest family there. We were granted asylum almost immediately, along with tickets for a plane which was leaving in 10 days. We heard that most people waited six months to a year in refugee camps to get on a plane to Canada.

On the local radio station we heard that the Czechoslovakian border had been closed at midnight. Ours was probably the last train to get out. □

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Soviet Military Strength Based on Economic Weakness

by Dwight R. Lee

Why was Mikhail Gorbachev willing to sign the Intermediate Nuclear Force (INF) treaty which calls for the elimination of all U.S. and Soviet intermediate range nuclear weapons in Europe? One obvious answer is that the Soviet Union has an advantage over the West in conventional forces. But this raises another troubling question. Why, in the face of a weak Soviet economy, is Gorbachev willing to shift toward conventional forces, when nuclear weapons are relatively cheaper? Haven't we heard repeatedly that the Soviets are sincere in their stated desire for arms control because they cannot afford an expensive arms race?

There is no doubt that the Soviet economy is weak, especially the civilian sector. Economic decisions in the Soviet Union are controlled predominantly by central planners, and will remain so into the foreseeable future, Gorbachev's policy of *perestroika* notwithstanding. Central planners are incapable of either acquiring or acting upon the information needed to keep production decisions responsive to the changing preferences of millions of consumers. This explains why the Soviet civilian economy is characterized by unimaginative managers, poorly motivated workers, inferior products, and chronic shortages.

Dwight Lee is professor of economics at the University of Georgia and holds the Ramsey Chair in Private Enterprise.

Contrary to the prevailing understanding, however, poor economic performance encourages military spending in the Soviet Union. It does so in two important ways. Economic inefficiency in the Soviet's civilian sector 1) increases the importance Soviet leaders attach to military strength and 2) reduces the costs of producing that strength.

In contrast with the United States, the Soviet Union is a superpower for one reason only: its military strength. Without its military power, the Soviet Union would be a large but poor country, and its leaders would have little standing or influence in the world community. Within the Soviet power structure, the impotence of the economy accentuates the importance of the military.

Poor economic performance also reduces the real cost of Soviet military spending. The cost of producing anything, whether bombs or band-aids, is the value of output that must be forgone. The Soviet Union may be less efficient absolutely at producing military hardware than the U.S., but the production of military equipment costs less in the Soviet Union because, with its inefficient civilian economy, this production crowds out less civilian output than it does in the United States. The Soviet Union has what economists refer to as a comparative advantage in producing military power.

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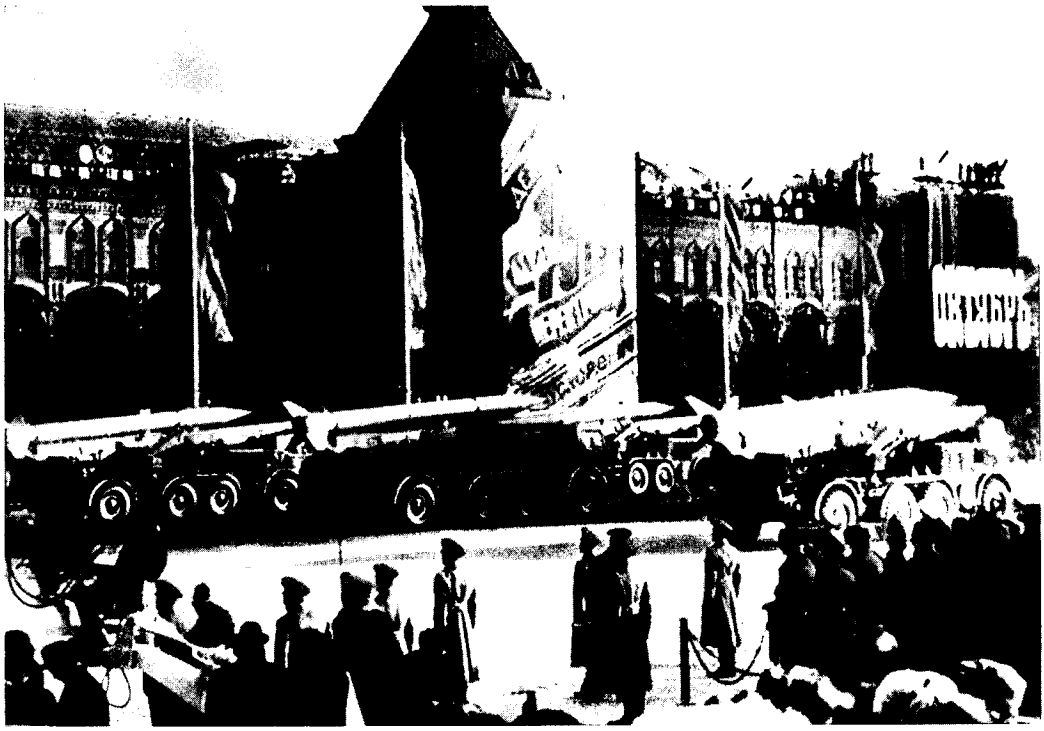

WIDE WORLD

Soviet missiles in Red Square during festivities marking the anniversary of the Russian Revolution.

Soviet leaders have responded predictably to this comparative advantage. They know that if the Soviet Union were to distribute its resources among the military and civilian sectors in the same proportion as does the U.S., then it would cease to be a superpower. But a large sacrifice in military strength would produce little improvement in what would remain a weak civilian economy. Thus, Soviet leaders have lavished resources on the military sector, and created the military machine we confront today.

The INF treaty raises the costs of the military competition between the U.S. and the Soviet Union because it increases the emphasis on conventional weapons. Despite the overwhelming economic advantage the U.S. and its NATO allies have over the Soviet Union and its Eastern European allies, any arms agreement that increases the costs of military competition plays to Soviet strength. The Western democracies can compete dollar for dollar with the Soviet bloc militarily, but there is little evidence that they will.

In economically efficient democracies, strong political pressures exist to subordinate military spending to civilian consumption. The convenient belief is that the same pressures exist within the Soviet Union, and are intensified by the weakness of the Soviet economy. This is a delusion. The ever-present danger in a democracy is that delusions will control our decisions. This danger is at no time more threatening than when it leads to attempts to increase our security by trusting in arms control agreements such as the INF. □

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School Censorship: Compulsion Creates Conflict

by John Semmens

"School Censorship Upheld" read the headline in my city's daily newspaper. The January 13th ruling by the Supreme Court that school officials have the right to control the content of the student newspaper is stirring controversy. Unfortunately, little attention is being directed to the root of the problem: *public* schools.

It is because the schools are publicly owned and operated that an otherwise reasonable act takes on sinister potential. It is the existence of tax-financed education that creates the inevitable clash of individual rights. That is, both sides of this case have legitimate rights. The resolution of the case *in either side's favor* tramples the rights of the other side.

The Court's logic was sound in asserting that the school, since it sponsors and funds the student paper, has a right to exercise editorial control. To deny this right would amount to requiring someone to fund the publication of ideas he finds offensive or harmful. Some 200 years ago, Thomas Jefferson correctly condemned forcing a person to finance ideas he opposes.

On the other hand, critics of the Court's decision are justified in their fears of growing suppression of expression. The recent trend in Court decisions has upheld warrantless searches and censorship of speech within schools. The extension to student papers is in line with these earlier findings.

If schools were private institutions, privately financed and voluntarily attended, there would be no case to bring to court. Private institutions would have discretion over whether there were a student paper and what its content might be. Those who didn't like the way this discretion was exercised would be free to take their business elsewhere. Competition among private schools would lead to a diversity of approaches to this issue.

When schools are public, though, there can be no equitable resolution of the problem. Those who find their local schools unsatisfactory, for whatever reason, are not really free to take their business elsewhere. Students are permitted to attend state-approved alternative schools, but not to select unapproved alternatives. Even if the student leaves the public school, his parents aren't free to withdraw their tax support. Parents may send their child to a state-approved private school, but they still will be required to pay for a public school education not received.

The heavy tax burden for public education effectively limits the schooling choices for many people. Though they might like their child to attend a private school, many parents cannot afford to pay twice for one education. In short, many children are *forced* to attend public schools.

Because of the compulsory and collectivist

John Semmens is an economist for the Laissez Faire Institute, a free-market research organization in Tempe, Arizona.

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method of financing the public schools, the violation of rights is guaranteed. The student writing a controversial article for the school paper has paid (in the form of his parents' taxes) for part of the cost of the support of the publication. Other taxpayers, who also have paid part of the cost, do not want their tax dollars to fund this controversial article. Whether the article be printed or suppressed, someone's rights will be violated.

That compulsion and collectivism should threaten free expression is amply demonstrated by conditions in the Soviet Union. The Soviet constitution guarantees a free press. At the same time, though, the government owns all the presses. Obviously, the government cannot allow valuable and scarce resources to be wasted on the expression of "frivolous" or "harmful" ideas. Consequently, the constitutional guarantee is meaningless. Similarly, the attendees of public schools are finding their constitutional guarantees of a free press to be meaningless in a collectivized institution where the authorities own the presses.

The only way to protect the rights of those who express ideas, as well as the rights of those who must pay for the publication of the ideas, is to discontinue the use of compulsion in education. Taxpayers should not be compelled to pay for schooling they neither want nor use. Students should be free to attend any school they or their parents are willing and able to pay for.

Ending coercion in schooling would go a long way toward demonstrating our understanding of and commitment to freedom. A truly free education would eliminate a major source of conflict and injustice in our society. □

IDEAS ON LIBERTY

The Locus of Sovereignty

The ultimate source of the educational crisis stems from an error in first principles. Once committed to this error, the public education system has floundered repeatedly. To locate the source of the error, men need only ask themselves a single question: Who is responsible for the education of a child? The answers, of course, are varied: the parents, the church, the civil government, or a combination of the three.

The conflicts in education are in fact conflicts over a much more fundamental issue: the locus of sovereignty, and hence, the locus of personal responsibility. The person or institution which possesses sovereignty must be the one which takes on the responsibility. By affirming the legitimacy of tax-supported education, voters have attempted to transfer their responsibilities for the education of their children to another agency, the state. Yet, at the same time, they affirm their own sovereignty over the content and structure of the educational system. That they have lost almost every battle in their war with tenured, state-supported educational bureaucrats, is the direct result of the public's abdication of personal responsibility, family by family, for the education of their children. The war was lost on the day that parents, as voters, decided to transfer the financial responsibilities of educating their own children to other members of the body politic.

—GARY NORTH

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Privatizing the Judiciary

by Daniel J. Popeo

As tight budgets have inclined some state governments and Federal executive agencies to search for alternatives to expensive government services, "privatization"—the shifting of government functions to the private sector—has finally become an acceptable option to pursue. Curiously, however, the idea of erecting a private judiciary as an alternative to the nation's judicial system—a system in danger of becoming immobilized by an onslaught of litigation—has received little attention. Yet there is no reason why the idea couldn't work in the judicial setting as well.

In fact, the litigation explosion that occurred in the 1970s (coupled with a simultaneous increase in judicial activism) has already caused a small number of entrepreneurs to set up alternative dispute resolution systems. The purpose of these systems is to ease the current judicial bottleneck, to allow for expeditious dispute resolution, and to open up the judicial process to a class of litigants who are finding it increasingly costly to use the public court system.

The Problem: A Judicial Bottleneck

There are two reasons for the recent bureaucratization of the judicial system: an increase in legal activism (which encourages parties and lawyers to seek judicial redress of an ever-increasing list of judge-made legal "wrongs") and the government's inability to respond to the courts' added work load.

In 1960, the U.S. District Court system registered a mere 80,000 case filings. Today, by contrast, the most recent Annual Report of the Administrative Office of the U.S. Courts records that plaintiffs filed 238,982 civil cases from June 1986 to June 1987. That growth represents a 200 per cent increase in civil litigation. Actual court days have increased only 40 per cent during the same period.

The major cost to parties that this judicial bottleneck creates derives from the long discovery periods preceding trial. From the date of filing, the average civil case takes 20 months to get to trial. This in turn has led to a huge backlog in civil cases. For example, 243,159 civil cases were pending as of June 1987.

Although excessive delays and broadened discovery methods produce a financial boon to lawyers, the litigants (both individual and corporate) have suffered. According to *The Practical Lawyer* (March 1985), an insurance company will pay an average of $32,000 in legal fees out of every $100,000 judgment that is awarded. Moreover, if a plaintiff wins $100,000, he can expect to take home up to 15 per cent less than what he would have recovered if he had received the compensation at the time the award became due (the time of the injury). This is because he has lost interest over the three-year waiting period preceding judgment.

The public also pays through higher taxes and lost national productivity. Currently, tax-

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payers spend $10,000 a day to keep each Federal district court operating. In some states the cost may be even higher. For example, Arizona taxpayers dole out $24,000 per day to keep their Superior Court system functioning. According to the National Insurance Institute, in 1985 insurance companies paid nearly $85 billion in casualty claims, but spent an additional $16 billion in legal fees. This lost revenue is recouped from the general public in the form of higher premiums for individuals and businesses. Higher premiums, in turn, raise the costs of goods and services to all consumers.

A Private Judiciary

Although most of the for-profit companies that provide Alternative Dispute Resolution (''ADR'') and private courts did not appear until the early 1980s, they have already been quite successful in accommodating the increasing demand for efficient and fair adjudication. The precursor to these for-profit companies is the American Arbitration Association (''AAA''). Although the AAA has principally been used by businesses to solve contractual disputes, parties are now using AAA guidelines and services to resolve other types of claims.

Businesses with contract disputes have increasingly turned to arbitration to settle them. In 1971, the American Arbitration Association conducted 22,549 dispute resolutions. By 1986, that figure more than doubled to 47,202. This trend is supported by former Chief Justice Warren Burger who has said, ''If the courts are to retain public confidence, they cannot let disputes wait two, three and five years or more to be disposed of.''

Companies like Endispute, based in Washington, and the Center for Public Resources (''CPR'') in New York, have followed the AAA's example by providing services in addition to deciding contractual disputes like those handled by the AAA. Endispute, like CPR, deals with mediation, arbitration, and mini-trials in what CPR refers to as ''win-win solutions,'' in contrast to the purely adversarial outcome of litigation. For example, Endispute has participated in patent and antitrust issues relating to the chemical and aerospace industries, as well as in an important mini-trial that resulted in a $61 million dispute settlement between American Can Company and Wisconsin Electric Power Company. Although groups like the AAA, Endispute, and the Center for Public Resources serve only quasi-judicial functions, their growth is directly related to the judiciary's failure to resolve disputes in a timely manner.

Alternatives to traditional dispute resolution are being developed in the area of libel law as well. The Iowa Libel Research Project, an offshoot of the University of Iowa Law School, has developed a program to allow libel plaintiffs and defendants to settle their differences outside the courtroom. A ''neutral'' is appointed in each case to decide if the media statement at issue was false and whether the reputation of the complainant was harmed. Often the remedy is to get the media to publish or broadcast the neutral's finding or to pay to have it published elsewhere. Given that the average libel suit now lasts four years and that 73 per cent of plaintiffs say they would be happy with a retraction, correction, or an apology, it would seem that non-traditional dispute resolution in this sensitive area has a promising future.

Perhaps the most dramatic result of the disillusion with the current judicial system has been the creation of actual ''shadow'' courts run by for-profit companies. Two examples of these private initiatives are the publicly owned Judicate (now located in all 50 states and the U.S. Virgin Islands) and the Arizona-based CiviCourt. While associations and companies like AAA, Endispute and CPR provide expert mediation and consulting geared toward dispute resolution, these shadow courts actually hear cases and hand down legally binding decisions.

While some in the legal establishment suspiciously view these for-profit companies as a potential vehicle for ''abuse and injustice,'' the result has been just the opposite. CiviCourt director Alice Wright has noted the companies' very existence rests on pleasing both the plaintiff and the defendant. If abuses take place on a significant scale, demand for their services will drop. At CiviCourt and Judicate, the parties are allowed to select the judge they wish to try their case. Selections are made from a list of senior and retired judges. The parties also decide what rules of discovery and evidence will be used

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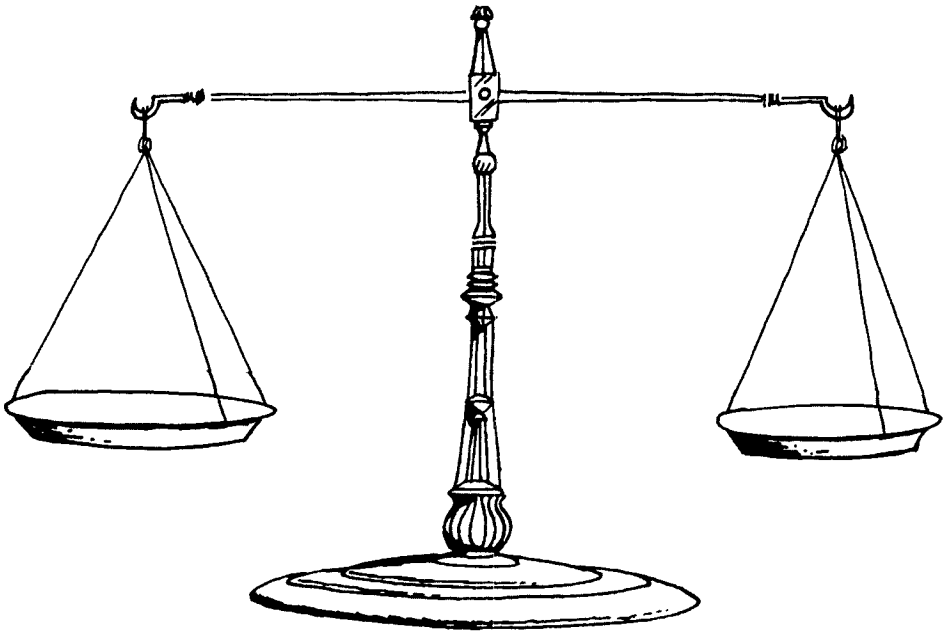

and whether the decision will be legally binding. The companies stress fairness to both parties. As one superior court judge familiar with Judicate has said, "If they don't, they'll be out of business."

One advantage of companies like Judicate is that they generally issue clearer and more concise opinions with no intent to set legal precedent for other parties. Since decisions are confidential, they are not published. Thus a savings in time and money results from avoiding overly verbose and prospective opinion-writing.

The Future

Whether it is an arbitration clause in a contract or patent infringement claims against a company, more and more potential litigants are solving their problems outside the courtroom. They are doing so for one main reason—the need to settle their disputes without the ruinous consequences of prolonged, expensive litigation. Cases now being handled by ADR companies include antitrust, personal injury, medical malpractice, insurance, and practically all other non-criminal disputes.

As long as a significant backlog of cases exists in the nation's courts, the private ADRs will continue to have an incentive to provide inexpensive, speedy, and just judicial services. Although the private sector is not currently large enough to markedly relieve the state and federal governments' caseload, a strong profit motive exists to expand. If dispute resolution continues to offer cost-efficient and fair adjudication in areas previously left to the government, industry growth potential is enormous given the estimated 8 million filings annually that are expected to come before our Federal and state courts this year.

Businesses should be encouraged to foster the creation of private courts, because their use could provide significant benefits to them. For example, although private courts would apply established law (which is, at times, unfortunately marred by an anti-business bias), there is almost no chance that the private judge would create a new judicial doctrine out of whole cloth. In addition there would be no judicial fiats that would shock business defendants and favor "small plaintiffs."

Perhaps a more significant plus for businesses would be the absence of juries in the

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new private system. Juries typically tend to disfavor businesses over non-business parties. This is especially true when the business is not based in the region where the court is sitting. Judges, as finders of fact, are presumably more sophisticated than juries and less likely to be burdened by a jury's typical prejudices.

However, the strong incentives to erect a comprehensive private judiciary may be offset by disincentives arising from the would-be legal entrepreneurs' fears that any investment made in this field may be lost. Business people seem vaguely apprehensive that some future legislative backlash may occur, incited by "public interest" groups' exaggerated emphasis on the negative policy implications of a private judiciary.

It is true that privatization of the judiciary will not happen without costs. The real costs, however, are not those to which such interest groups would likely object. Highly qualified judges, already being tempted away from their low-salaried positions on the bench back to the private sector, would likely leave in greater numbers for work as private judges. This migration might further impoverish the pool of legal thinkers in the publicly financed judiciary, thereby leaving behind both less skilled jurists and the type of activist judges for whom there would be no demand in the private sector.

Another perceived cost of privatization, assuming the demand for dispute resolution does not rise in response to decreased costs, is the reduction in the number of billable hours that firms can expect to generate. The costs to the legal profession may here be directly inverse to the benefits clients receive. Accordingly, the legal establishment may be reluctant to endorse privatization. (The American Bar Association has taken no position on the trend as yet.)

However, in this respect it is certain that businesses involved in private dispute resolution would gain. Alan Epstein, president of Judicate, insists that any loss to a firm in billable hours will be offset by an increased capacity to take on cases, as well as by a happier group of clients.

Cases with profound social policy implications will inevitably continue to be brought in the public courts. Nevertheless, it seems likely that legislatures will eventually be persuaded that the greater dispensation of justice (in terms of speedier proceedings and the higher real awards that would result) outweighs any potential impoverishment of the public judiciary.

In sum, the policy question at the core of any future debate concerning whether a private judiciary should be allowed to exist is whether the public judiciary could profit by a little competition to its status as the primary organ of dispute resolution. Given the current crisis, the answer should be in the affirmative. □

In the September Issue of *The Freeman* . . .

- "What Should We Do About Luck?" by James L. Payne
- "On the Foundations of Economic Liberty" by Roger Pilon
- "The *Monitor:* America's Socialized Shipwreck" by Gary Gentile
- "Charles Schwab and the Steel Industry" by Burt Folsom

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John Bright: Voice of Victorian Liberalism

by Nick Elliott

John Bright did more than anyone else to bring about the great advances for liberty in nineteenth-century Britain. A leading orator and agitator, he was considered by many to be the best political speaker of the century. His voice contained a quiet passion which captivated fellow members of Parliament and roused the many thousands he addressed at public meetings.

Born in Rochdale (a town north of Manchester) in 1811, Bright was raised in the individualistic tradition of the Society of Friends. From the faith of his family, he learned that there is a natural equality of mankind, and that any individual can communicate with God. He later recognized this connection between his religion and his politics:

> We have no creed which monarchs and statesmen and high priests have written out for us. Our creed, so far as we comprehend it, comes pure and direct from the New Testament. We have no thirty-seven articles to declare that it is lawful for Christian men, at the command of the civil magistrate, to wear weapons and to serve in wars.[1]

For many years Nonconformists—those who did not conform to the established Church of England—had been persecuted and forced to finance the state church. Because of this, they also tended toward political individualism. John's father, Jacob Bright, was liberal in his politics, and a supporter of the radical Member of Parliament Joseph Hume. He was also one of the many Nonconformists who refused to pay the church rate—a local tax to finance the state religion—and as a result had silver spoons taken from his house by church officials.

As a young man, John worked in his father's cotton mill. He kept a collection of books in a room above the counting house, and in spare moments went there to expand his knowledge. His favorite writer was the poet and liberal scholar John Milton. At the same time, John was tutored in politics by his fellow workers, supporters of the Chartist movement, which called for universal male suffrage and the elimination of property qualifications for members of Parliament.

Bright established his reputation in an 1840 debate over church rates, an issue close to his heart. In his hometown of Rochdale, he led a rebellion against the local vicar. A large gathering was held in the local churchyard, at which John mounted a tombstone to denounce the "foul connection" of church and state.

The Campaign Against the Corn Laws

Bright is most famous for his part in the successful campaign for the repeal of the corn laws. During the Napoleonic War, English landowners had enjoyed a monopoly in the production of food. At the end of the war, they instituted the corn laws—a form of import control—to protect their domestic monopoly

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from competition. The laws kept the price of grain high, and since bread was the primary sustenance for most families, the laws created particular hardship for the poor. The issue had been brewing for some time. Charles Villiers had proposed corn law repeal in Parliament every year, and the Anti-Corn Law League was formed in Manchester in 1839. Richard Cobden and John Bright were instrumental in its founding.

The campaign gathered impetus in the "hungry forties" with a succession of poor harvests. The poverty was very real—observers reported seeing people with "withered limbs" in Manchester. Cobden was elected to Parliament from Stockport, and Bright was elected in 1843 to represent Durham. The League developed into a highly efficient political machine with mass support. They distributed millions of leaflets, held gatherings up and down the country, and published their own newspaper, *The League*. In addition, they gained the support of the fledgling *Economist*. In 1845, when Ireland was struck by a potato blight, pressure for repeal grew even stronger.

Bright and Cobden embarked upon a hectic speaking tour. The climax was a meeting in the Covent Garden Theatre, where Bright railed against the protectors of upper class privilege: "The law is, in fact a law of the most ingeniously malignant character. . . . The most demoniacal ingenuity could not have invented a scheme more calculated to bring millions of the working classes of this country to a state of pauperism, suffering, discontent, and insubordination. . . . "[2]

Leading Whigs and Tories were convinced of the need for repeal, and on June 25, 1846, a bill for repeal was carried. The elimination of other import duties followed, and a 70-year era of British free trade began; in the popular mind, free trade now signified cheap bread.

The event was also a momentous one for the landscape of British politics. Division in the Tories was irreconcilable. The landowning interests had stubbornly resisted repeal, and Prime Minister Robert Peel, who had supported repeal, was forced to resign. The division excluded the conservatives from government for the next twenty years.

In his activity in support of free trade, Bright was motivated above all by a concern for the plight of ordinary people. From the same motive, he opposed all the legislation which regulated working conditions in factories. The Factory Act of 1847 was in part a retaliation by the landowners for the corn law repeal: regulation of factories was a means of penalizing manufacturers. Bright was certain that it would make people worse off by reducing the number of hours in which they could earn money.

Opposition to the Crimean War

In their campaign against the corn laws, Bright and Cobden rode a wave of public adoration. But in their opposition to the Crimean War, the contrast could not have been greater, for they had to endure derision from a jingoistic public. Despite this, they produced some of the most lucid statements of non-interventionist foreign policy ever made, and Bright contributed some of his most memorable oratory.

For Bright, Cobden, and other leaders of the "Manchester School," free trade was inseparable from a pacific foreign policy. Trade is based on mutual cooperation, and evokes goodwill among nations. They rejected the argument that foreign alliances were needed to enforce a "balance of power" in Europe, and warned that such alliances would drag Britain into future conflicts. The only people who would benefit from war were the "tax-eating" class—government bureaucrats. Common people would suffer from the burden of taxes to fund foreign adventures. Bright and Cobden reserved no cordiality for Liberal Party Prime Minister Palmerston, a notorious interventionist whose policies attracted the description of "gun-boat diplomacy."

As the war continued, Bright became deeply distressed by the loss of life: 22,000 British soldiers died, but only 4000 in action; the rest died from malnutrition, exposure, and disease. His passionate speeches left a lasting impression on the House of Commons. His most famous words were these:

> The Angel of Death has been abroad throughout the land; you may almost hear the

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beating of his wings. There is no one, as when the first-born were slain of old, to sprinkle with blood the lintel and the two sideposts of our doors, that he may spare and pass on; he takes his victims from the castle of the noble, the mansion of the wealthy, and the cottage of the poor and lowly.[3]

India and the American Civil War

At the end of the Crimean War, Bright suffered a nervous collapse, and was unseated in the general election. However, it was not long before he was returned as member for Birmingham, and with renewed energy he sought better government for India. Bright argued that the mutiny of 1857 was caused by the ineptitude of colonial government. Capable Indians were excluded from the administration of their own country, positions being allocated instead by personal favor. Bright assailed the economic management which imposed onerous taxes on the Indian peasantry, stunting development to maintain a vast, inefficient Indian civil service. He was ahead of his time in recognizing that Britain would not rule India forever. He also saw the potential for conflict in a country of "twenty nations, speaking twenty different languages," and argued for a confederacy of smaller states.

For many years, Bright had been an admirer of the United States—he was sometimes known in the House of Commons as the Honourable Member for the United States. He thought that the free and democratic style of government in America should be a model for Britain. When civil war erupted, Bright was concerned for the future of the republic, but allied himself with the cause of the North.

English liberals weren't unanimous in supporting the North. Cobden initially inclined toward the South, and *The Economist* sympathized with the South throughout. A humanitarian always, Bright supported the North because of the issue of slavery, which appalled him. In the early part of the war, when military intervention on the side of the South seemed likely, Bright urged neutrality. He also maintained a correspondence with the Chairman of the Senate Foreign Relations Committee, Charles Sumner. He encouraged caution and diplomacy; some of the letters he wrote to Sumner were read to President Lincoln.

It was always a matter of regret for Bright that he never visited North America. He maintained his admiration for the United States, and saw in it the potential of a great world power.

Parliamentary Reform

Before 1867, only 16 per cent of British adult males had the right to vote. In the 1860s, Bright led a vigorous campaign for full manhood suffrage, secret ballots, and equal representation for industrial cities like Birmingham and Manchester.

He rested his case upon two principles. First, since working people must pay taxes and bear the impact of legislation, they should also have a voice in government. Second, he expressed faith in the decision-making ability of ordinary people. A frequent claim of reactionary conservatives was that common people are incapable of making important decisions. Bright reversed this and argued that progress had been achieved only by enforcing working class opinion. He was somewhat naive in supposing that a mass franchise would lead to low taxes, free trade, and a non-interventionist foreign policy.

With his ability to rouse passions, Bright's efforts in the campaign for electoral reform made him a formidable adversary of the Conservative government. Previous campaigns had often suffered from having the support of only one class, whereas Bright rallied the middle and working classes into unity. Ironically, in the same way as corn law repeal, reform was introduced by a Conservative prime minister. Benjamin Disraeli presided over the 1867 Reform Act, which enfranchised two million additional men, and cleared the way for later reforms.

Later Years: Cabinet and Ireland

As a parliamentary back-bencher, Bright had been enormously influential. Nearing the end of his campaigning career, he entered William Gladstone's cabinet in 1868. He never was happy in assuming collective responsibility,

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and soon had cause to disagree with his government colleagues. The Forster Act of 1870 laid the foundations of state education, and it incorporated the teaching of state religion which was anathema to Bright. He wrote to Gladstone that it had done a "tremendous mischief" to the party.[4] After the 1880 election, Bright was again invited into government. Soon after, Britain initiated a war with Egypt, and Bright's objection was so great that he felt compelled to resign.

Ireland was another longstanding interest. Bright had been a personal friend of Irish reformer Daniel O'Connell, who had supported the Anti-Corn Law League. Bright took up the grievances of the Irish and, after O'Connell's death in 1847, was often their most persistent representative in Parliament. He rejected all attempts to impose the Church of England upon the native Catholics; instead he called for the withdrawal of this "symbol of conquest." The other issue was land policy: Irish agriculture had always been weak because large-scale English owners maintained idle lands, and because tenants scratched a precarious existence with no legal right of tenancy. Bright offered three solutions: an end to the law of primogeniture which ensured the continuation of concentrated ownership; compensation for evicted tenants and loans for those who wanted to buy land; and land purchase from English owners, to be sold at a discount to Irish buyers.

Some of these proposals were implemented, as Gladstone had been taking note of Bright's suggestions. But in Parliament the Irish Nationalist representatives became increasingly militant. They used disruptive techniques which led, in response, to the rules of procedure which still are with us today. Bright deplored all this, and it significantly changed his attitude. In 1886, Gladstone introduced a land purchase scheme to buy out the English landlords, along with a proposal for Irish home rule. By this time, Bright was so disgusted with the activities of the Nationalists in Parliament that he opposed the land purchase scheme, and he regarded home rule as a policy which would endanger the "Protestant and loyal people of the north."[5]

As a figure of importance among the Liberals, Bright's opposition was very damaging to Gladstone. Home rule was defeated, and the Liberals were hopelessly divided on the issue. It pained Bright to speak out against Gladstone because they had been good friends.

In an essay of this length, it isn't possible to describe all of Bright's arguments. He was also a committed opponent of capital punishment, spoke on many aspects of colonial government, and addressed a variety of issues involving religious freedom. His speeches are a pleasure to read, and one can imagine the impact they made upon listeners.

Bright lived from 1811 to 1889, and when looking at the political events during those years, the advance of liberal principles is quite momentous. In 1819, when demonstrators protested against the corn laws and the lack of parliamentary representation, they were cut down by a cavalry charge. As late as 1859, Queen Victoria expressed her concern to Lord Palmerston that John Bright was attempting to undermine British institutions. Yet by 1868, when Bright became the first Nonconformist to hold a cabinet post, he was respected, as were the principles he enunciated. In the campaign against the corn laws, he helped to establish free trade as a popular principle which no politician would dare to interfere with for years to come. His stand with Cobden against the Crimean War inspired a later generation of liberals to follow the idea of non-intervention. Opening up Parliament to the scrutiny of ordinary people marked an end to the high-handed government of earlier times. In these, as in many other issues, John Bright, as a consistent and principled defender of individual liberty, imparted a widespread and lasting acceptance of liberal politics. □

1. William Robertson, *The Life & Times of John Bright* (London: Fisher Unwin, 1912), p. 203.
2. Speech at Covent Garden Theatre, December 19, 1845, in J. E. Thorold Rogers (ed.), *Speeches on Questions of Public Policy* (London: Macmillan, 1878), pp. 419-420.
3. Speech to the House of Commons, February 23, 1855, in Rogers, p. 251.
4. Quoted in G. M. Trevelyan, *The Life of John Bright* (London: Constable, 1913), p. 409.
5. Quoted in Keith Robbins, *John Bright* (London: Routledge & Kegan Paul, 1979), p. 256.

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The Scranton Story

by Burt Folsom

In the first few decades of the nineteenth century, the English dominated the world's iron markets. They had developed the first blast furnaces, invented the puddling techniques to purify molten iron, and had skilled workers eager to compete on a world market. With this large head start over U.S. producers, the English, by the 1830s, were providing all of America's iron rails, and all the cast-iron water pipes, as well as iron-tipped plows, locks, and nails. By 1840, dozens of Americans were experimenting with different types of fuels, ores, and blast furnaces, trying to produce American-made iron.

During the 1840s, in Pennsylvania's Lackawanna Valley, George Scranton, his brother Selden, and their cousin Joseph Scranton became the first Americans to mass-produce iron rails. Two things are striking about the Scrantons' success: First, the Lackawanna Valley, with its thinly scattered, low-quality ore deposits, was hardly a natural setting for manufacturing. Second, in the competition for urban growth, the winning city of Scranton did not exist until the 1840s. Nearby Wilkes-Barre and Carbondale had the advantages of age and wealth, until Scranton overcame them.

The migration of the visionary Scrantons to northeast Pennsylvania began in 1839, when William Henry, a trained geologist, scoured the area looking for the right ingredients for iron-making—water power, anthracite coal, iron ore, lime, and sulphur. He found these elements near Wilkes-Barre, the oldest, largest, and wealthiest city in northeast Pennsylvania. Wilkes-Barre's leaders, though, were cautious: they preferred to ship coal safely down the Susquehanna River, not to risk their fortunes on unproven iron. So Henry went about 20 miles east into the wilderness of the Lackawanna Valley, and looked over the land in this area. It had some water power and lots of anthracite; he also found small quantities of iron ore and lime, so he falsely assumed they existed there in abundance.

Playing a hunch, Henry took an option to buy 500 acres of land at present-day Scranton and built a blast furnace on it. At first he sought the necessary $20,000 for the scheme from New York and England; but the high risk of his daring experiment frightened away even the hardiest of speculators. Finding greater faith within his family, Henry received support from his son-in-law, Selden Scranton, and Scranton's brother George, both of whom were operating the nearby Oxford Iron Works in Oxford, New Jersey. Originally from Connecticut, the wide-ranging Scrantons tapped their credit lines and picked up additional capital from their first cousin, Joseph Scranton; his brother-in-law, Joseph C. Platt; and friends, Sanford Grant and John and James Blair, who were merchants and bankers in Belvidere, New Jersey. These entre-

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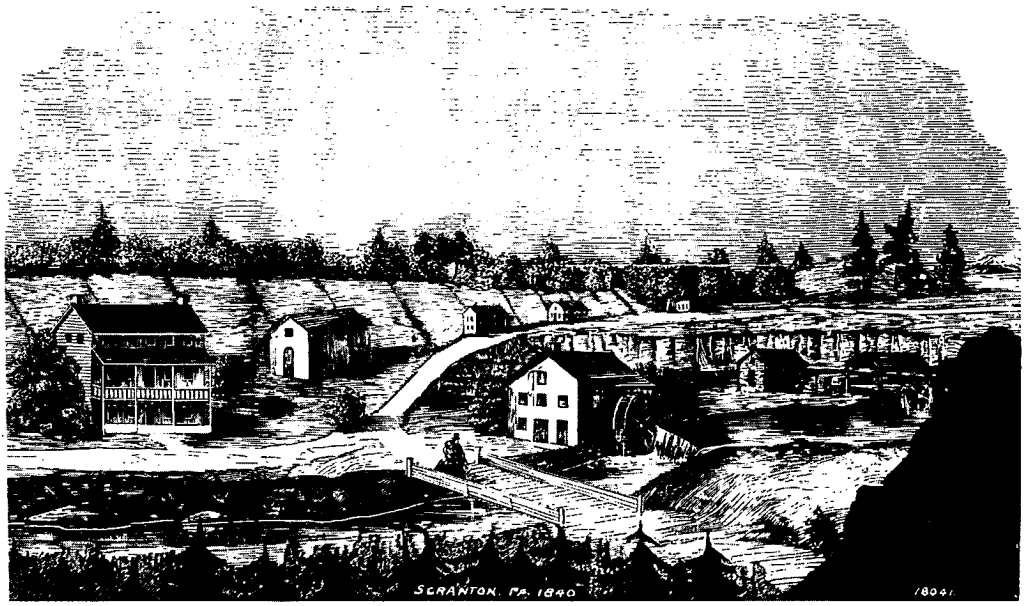

Scranton in 1840

Copy photography by Dorothy Allen from an original in the Lackawanna Historical Society Archives

preneurs, whom we will call the Scranton group, raised $20,000 in 1840 and spent the next two years building a blast furnace and digging the ore and coal to make iron.

Making iron, they quickly discovered, required more entrepreneurship than they had originally expected. The local ores and limestone were limited and of poor quality. They had chosen the wrong location, but it was too late to sell out and switch, so they searched eastern Pennsylvania and New Jersey for the right combination of ores and limestone.

Only the local coal lived up to expectations, and this was available in other areas with established cities closer to the lime and ore. When the Scrantons made their iron, they brought their lime and ore on boats from Danville, Pennsylvania, about 30 miles up the Susquehanna River right by the mansions on the River Common in Wilkes-Barre, and over land almost 20 miles to Scranton.

The high costs of transportation and the unexpected purchases of ore and lime almost ran the Scrantons into bankruptcy; then George Scranton came up with a plan to convert the pig-iron into nails. Such a bold venture into manufacturing would not be cheap. The need for a rolling mill and a nail factory upped the ante to $86,000. Desperate for credit, George Scranton coaxed some of this money from New Yorkers. Yet this jeopardized the family's ownership. So he placed his greatest reliance on other members of the Scranton group: longtime friends John and James Blair invested money from their bank in New Jersey, and Joseph Scranton sent funds from his mercantile business in Augusta, Georgia. By 1843, George Scranton got his $86,000, kept control within the family, and began making nails for markets throughout the East Coast.

The nail factory failed miserably. First, no rivers or rails helped market its product. Dependent on land transportation, the Scrantons transferred the nails on wagons east to Carbondale and west to the Susquehanna River, and from there shipped them to other markets. Second, no one wanted the Scrantons' nails because they were of poor quality. The low-grade ores in the Lackawanna Valley provided only brittle and easily breakable nails.

Faced with bankruptcy, the Scrantons contemplated the conversion of the nail mill into a rolling mill for railroad tracks. Experienced Englishmen still dominated the world production of rails in the 1840s; no American firm had dared to challenge them. After floundering in

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the production of nails, however, the Scrantons decided that a lucrative rail contract might be the gamble that could restore their lost investment.

As luck would have it, in 1846, the nearby New York and Erie Railroad had a contract with the state of New York to build a rail line 130 miles from Port Jervis to Binghamton, New York. When Englishmen hesitated to supply the Erie with the needed rails, the Scrantons had their chance. They traveled to New York and boldly persuaded the board of directors of the New York and Erie to give their newly formed company the two-year contract for producing 12,000 tons of T-rails. They promised to supply rails more cheaply and quickly than the British. Impressed with the Scrantons and desperate for rails, the directors of the New York and Erie advanced $90,000 to the eager Scrantons to construct a rolling mill and to furnish the needed track.

The construction of the mill and the making of thousands of tons of rails seemed impossible. The contract called for the Scrantons to supply the Erie with rails in less than twenty months. The Scrantons first would have to learn how to make the rails they promised to provide. Building the blast furnaces would come next. Then they would have to import some ore and much limestone into the Lackawanna Valley to make the rails. Finally, because they lacked a water route to the Erie line, they would have to draft dozens of teams of horses to carry finished rails from their rolling mills scores of miles through the wilderness and up mountains to New York, where the track was to be laid. It is no wonder the New Yorkers wanted to back out at the last moment. Yet somehow, in less than a year and a half, the Scrantons did it. On December 27, 1848, just four days before the expiration of the Erie's charter, the Scrantons fulfilled their contract and completed the rail line.

The Effect of Low Tariffs

An interesting feature of the Scrantons' achievement was that they built their rails during a time of low tariffs. Some businessmen have always argued that their government should place high tariffs on imports to protect local manufacturers against foreign competitors. Yet, in 1846, the year the Scrantons began making rails, Congress passed the Walker Tariff, which lowered duties on imported rails and other iron products from England. George Scranton said he actually liked the lower tariff for two reasons. First, the Scranton price of $65 per ton of rail was already fixed and was competitive with English prices. In any case, Scranton estimated his firm would be earning $20 per ton profit, so the tariff was not needed. Second, the low tariff meant that the Scrantons could buy their raw materials—pig iron, rolled bars, and hammered bars—more cheaply. This, Scranton hoped, would lay the foundation for his firm to be the strongest on the continent for years to come.

Many Americans were amazed that an iron works located in the middle of a wilderness, with no connecting links to outside markets, could build and deliver 130 miles of rails to a railroad in another state. The Scrantons did not want to have to duplicate this feat, so they did two things to improve their location: first, they started building a city around their iron works; second, they began building a railroad to connect their city to outside markets. That way they could ship rails anywhere in the country and also export the local anthracite, which could be sold as a home-heating fuel.

With the confidence of New York investors, the Scrantons proposed two railroads: the Liggett's Gap, and the Delaware and Cobb's Gap. The Liggett's Gap line, running from Scranton 56 miles north to connect with the Erie at Great Bend, would permit Scranton to supply coal to the farms in the Genesee Valley in upstate New York; the Delaware and Cobb's Gap route, running 64 miles east to the Delaware River at Stroudsburg, would give the Scrantons a potential outlet for coal to New York City. By backing two lines, the Scrantons gave themselves two markets for Lackawanna Valley coal. The building of a railroad, then, was a logical sequel to the Scrantons' superb iron works. The railroad itself became a market for Scranton iron; it provided an outlet for Scranton coal; and it promoted trade for Scranton city.

Building the two railroads was no cinch.

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George Scranton, 1811-1861

Some of the terrain was mountainous: even after using gunpowder to level the hills, the grade was still steep in places. Also, George Scranton had to negotiate some delicate right-of-way problems with farmers who were overvaluing their land. Of course, the Scrantons were using their own homemade rails for the line, but this still ran into costs. For all of this, the Scrantons needed more New York capital, but they had to be careful. They wanted to be entrepreneurs, not pawns of the New Yorkers. The Scrantons had to make sure they retained a guiding interest in their projects. This they did.

The two railroads were surveyed and built between 1850 and 1853; they both were consolidated into one line, the Delaware, Lackawanna, and Western Railroad (hereafter Lackawanna Railroad) with George Scranton as its first president. In 1853, flushed with success, the Scrantons also incorporated their iron works as the Lackawanna Iron and Coal Company (hereafter Lackawanna Company) with $800,000 in stock; they elected Selden Scranton as president.

The building of America's premier iron works and railroad was an amazing feat of collective entrepreneurship. The Scranton group became unified behind a vision of mass-produced rails, the creating of a city, and the laying of rails from its borders east and north to outside markets. As individuals, the members of the Scranton group had few of the skills and little of the capital needed to fulfill this vision; but collectively they did. They had to have outside cash, but their confidence and unity of purpose impressed New York investors and convinced them the Scrantons could do the job.

Not everyone wished the Scrantons well. And this made their success story even more remarkable. First, there was the generally negative reaction from leaders in Wilkes-Barre, who thought the rise of a new city would threaten their hegemony in northeast Pennsylvania. The Scrantons logically tried to secure loans in Wilkes-Barre, the oldest and largest city in the area. But the businessmen there rarely helped, and they often hurt. For example, in the 1850s the Scrantons tried to get a charter for their railroad from the state legislature; Wilkes-Barre's politicians thwarted the Scrantons because the new rail line threatened Wilkes-Barre's trade dominance along the Susquehanna River through the North Branch Canal.

Not only did politicians in Wilkes-Barre hamper iron production and delay rail completion, they prevented the Scrantons' emerging industrial city from becoming a county seat. The new city of Scranton happened to be situated in the eastern end of Luzerne County. But wily politicians in the county seat of Wilkes-Barre used state-wide influence to delay for decades the creation of a new county. Even the prestige and influence of George Scranton in the Pennsylvania Senate and U.S. Congress during the 1850s could not force the division of Luzerne County. So while the Scrantons were trying to promote their new town as a center of industrial opportunity, the town's administrative business was being diverted to the county seat of Wilkes-Barre.

Possibly even more damaging than the opposition from Wilkes-Barre's politicians was the hostility of many farmers near Scranton. These old settlers liked the prospects of improved transportation to get their crops to market, but many did not want to see industrialization transform their rustic community. Even before the Scrantons arrived, several of these farmers had formed a committee to denounce them.

The squabbles with the old settlers regularly

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kept the Scrantons from fully attending to their iron works. Recognizing this problem early, the Scrantons donated land and labor to help build them a church. Through a company store, the industrialists enthusiastically traded goods and produce with nearby farmers. Desperate for credit, though, the Scrantons were barely surviving in the early 1840s and had to seek extensions on local loans.

Disputes with the old settlers over land and credit persisted as the Scrantons verged for years on bankruptcy without successfully producing nails or rails. Feuding seems to have been commonplace. Even when the Scrantons finally received the rail contract from the Erie, many farmers withheld the use of their mules and horses to prevent delivery of the rails; others charged exorbitant prices. Under these conditions, one can hardly argue that the location of Scranton was inevitably destined for urban glory.

Promoting a New City

When the iron works and the railroad succeeded, the Scrantons then promoted the growth of their new city. Their correspondence shows that they clearly viewed industrial and urban growth as symbiotic. Their investment in real estate and housing multiplied in value after the success of their iron works and the arrival of a railroad. The Scranton group originally bought a 500-acre tract for $8,000 in 1840. As mere coal land that acreage was worth at least $400,000 by the mid-1850s. As improved land much of it was worth even more. The Scrantons had laid out streets, sold lots, and built mansions for themselves and company houses for their workers.

Unlike the leaders in Wilkes-Barre and Carbondale, the Scranton group created an open environment for their city and actively recruited investors to come. To do this effectively, they went to the state legislature in 1866 and secured wide city limits of almost twenty square miles, which at that time included mostly farm and timberland. They incorporated this large space to fulfill their vision of their city's future, in which they saw many more industries, homes, and parks. The space was needed to plan all this properly.

Wilkes-Barre's leaders, by contrast, wanted to limit immigration and preserve their closed society. They intentionally settled for small city limits of 4.14 square miles and did not even incorporate this much land until five years after the Scrantons did so. This made urban planning in Wilkes-Barre difficult, and it also hindered the preventing of fires and the controlling of epidemics.

All this creates the impression that, once the iron works and the railroad were established, and once the city of Scranton was incorporated, the Scranton group had it made. But this was not the case; in fact, most of the Scranton group did not die rich, and two died very poor.

William Henry, the original leader of the group, left the city in the 1840s after some bad investments. Henry had energy and vision but little patience and endurance; he died embittered and impoverished in 1878. Sanford Grant, the first owner of the company store, wilted when faced with business competition and industrial risk. Selling his stock, he left for safer business climes in Belvidere, New Jersey, where he lived, without ulcers or wealth, until his death in the 1880s. Displaying greater fortitude than Grant, Selden Scranton became the first president of the Lackawanna Company; five years later, though, he and his brother Charles left to operate a blast furnace in Oxford, New Jersey. Their ironmaking talents ultimately failed them; Seldon declared bankruptcy in 1884 and died shortly thereafter.

George Scranton, the early leader and driving force behind coal and railroad development, had more faith and perseverance than most of the others. He amassed $200,000, built a fine mansion, and served as U.S. Congressman from northeast Pennsylvania. George, however, still lost some of his fortune during the Panic of 1857 and had to sell much of his stock in the Lackawanna Railroad at reduced value. Plagued with health problems from overwork during the rugged days of the 1840s, George died in 1861 at age 49.

Three other members of the Scranton group never abandoned their vision of manufacturing rails and building a city; they achieved fabulous success and wealth. On top was Joseph Scranton, who said at the start, "I have no fears of the ultimate success [of the iron works]

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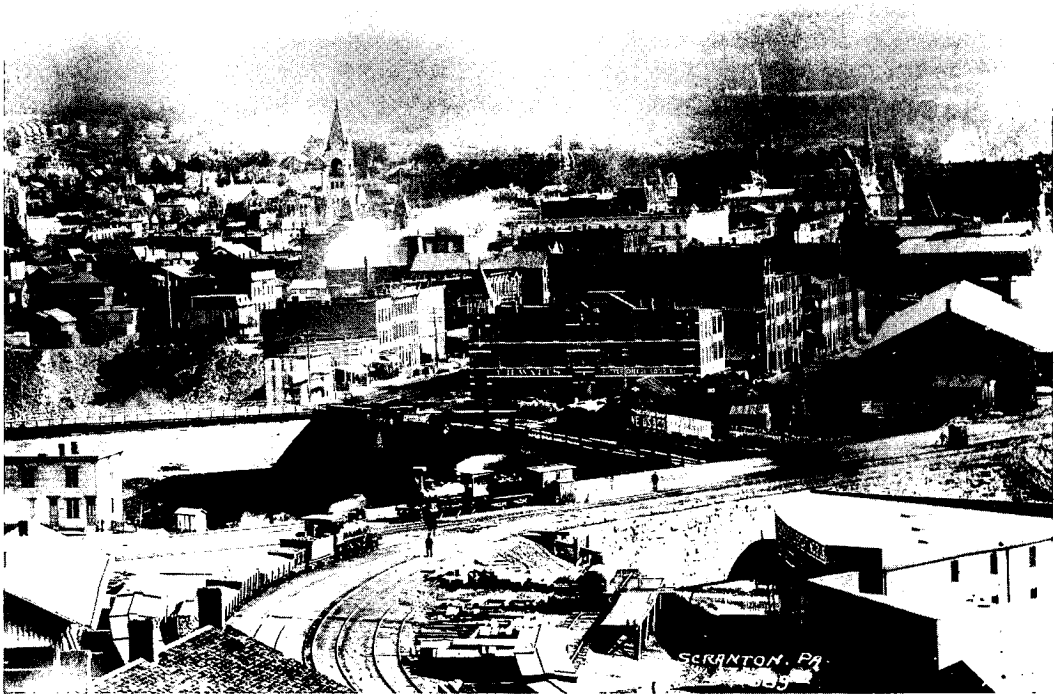

Scranton in 1883

Copy photography by Dorothy Allen from an original in the Lackawanna Historical Society Archives

. . . I have invested in it. Should remain till it is doubled or lost as the case may be.'' Twenty-seven years later, Scranton was president of the flourishing Lackawanna Iron and Coal Company and was worth $1,100,000, making him the wealthiest man in northeast Pennsylvania. His brother-in-law and next-door neighbor, Joseph C. Platt, was superintendent of the Lackawanna Company and was worth $220,000. Right behind Joseph Scranton with $910,000 was his friend James Blair, who had backed the Scrantons from nails to rails. Blair held a substantial amount of stock in both the iron works and the railroad; he then expanded and started Scranton's first trolley company.

Some people point to such wealth, and the absence of it in other households, and argue that the state should redistribute it, or at least tax it at high rates. It hardly seems fair, they might say, that some people should have so little, while three men—Joseph Scranton, Joseph Platt, and James Blair—should own close to ten per cent of all the wealth in the city (according to the data in the 1870 Federal census). What we need, according to this view, is an active state to transfer income, chop up inheritances, perhaps even to impose equality of condition.

To argue this way is to miss a key point: Scranton's founders, as entrepreneurs, created something out of nothing. They created their assets and created opportunities for others when they successfully bore the risks of making America's first iron rails. Without them, almost everybody else in the region would have been poorer. The amount of wealth in a region (or a country) is not fixed; in 1870, Scranton, Platt, and Blair got the biggest piece of the economic pie, but it was the biggest piece of a much larger pie—made so by what they did when they came to Pennsylvania 30 years earlier.

When the Scrantons came to the Lackawanna Valley, it was a poor farming region with no close ties to outside markets. In 1850, according to the Federal census, no one in the Lackawanna Valley was worth more than $10,000. In 1870, after the Scrantons had established their city and their iron works, 33 families in Scranton alone were worth at least $100,000; and one was already a millionaire. Thousands of other families were working their way toward better lives. The Scrantons' iron

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works and railroad were the means to this end.

Some people look at the results of splendid entrepreneurship and say that someone else might have come along later and done the same thing. We can see how improbable this is in the Scranton case. The wealthy leaders in the older, more prosperous city of Wilkes-Barre, for example, shunned manufacturing for years and often tried to thwart the Scranton's plans. If the Scrantons had not come along, much of the iron ore in central Pennsylvania and New Jersey probably would have been exported to Philadelphia, Pittsburgh, or New York, where more abundant capital eventually would have taken the risks of making manufactured goods. Northeast Pennsylvania would have been left in the dark.

To be sure, the anthracite in the Lackawanna Valley was already attracting New York investors: but they came only to get coal, not to build cities and make the region prosper. Without dedicated local entrepreneurs, the Lackawanna Valley, like so many mining regions, would have enjoyed only fleeting and limited prosperity. The entrepreneurs in New York would have bought the coal land cheap, supplied transportation to the region, collected their profits, and left the exporting area full of deserted mines and ghost towns.

Creating Opportunities

Let's look at the different opportunities the Scrantons, as entrepreneurs, created for others. First, the people in northeast Pennsylvania, especially those with capital to invest, now had new and better opportunities available. Scranton, in fact, became a magnet for entrepreneurs in nearby towns, except for Wilkes-Barre. Investors in the nearby county seats of Montrose and Towanda came to Scranton and set up the city's first two banks. From nearby Honesdale came Scranton's first large-scale flour miller. From Carbondale came the presidents of both of that city's banks, a locomotive builder, a stove maker, a coal operator, and the mayor. Not all of these men won fortunes, but several did, and their investments helped diversify Scranton's economy and made it one of the fastest growing cities in America in the late 1800s.

Another group of winners were the many local farmers who held on to their land and sold it later as coal land. All they had to do was watch others do the work of establishing the region's export. After this, they cashed in. The Scrantons bore the risks of making rails from imported ore; then they risked building a railroad to connect the Lackawanna Valley to New York City. All the farmers had to do was keep their land and watch it rise in value—from $15 an acre in 1840 to $800 an acre in 1857. In just 17 years, then, a 160-acre farm increased in worth from $2,400 to $128,000. Some of these locals even ended up richer than the wealthiest of the Scrantons.

Even the poorest immigrants sometimes got rich in Scranton. The growth of Scranton from a farming hamlet in 1840 to 45,000 people in 1880 brought thousands of immigrants to town. Many of them worked in the factories and improved their lives; they saved a little money and bought their own homes. Some of them had the talent and vision to rise to the top. In 1880, of Scranton's 40 most prominent businessmen, measured by memberships on boards of directors, nine were immigrants.

Some of these rags-to-riches immigrants were clearly among the most successful men in Scranton. Thomas Dickson, for example, came to America from Scotland and began work as a mule driver. Soon he was making engines, boilers, and locomotives for the Scrantons; he ended up as president of the Delaware and Hudson Railroad. Another immigrant, John Jermyn, came to Scranton in 1847 from England and began working for the Scrantons for 75 cents a day. Soon he was managing coal mines and was putting what little money he earned into coal land and real estate with a knack that amazed everyone. The critical risk in his career came in 1862, when he leased some abandoned mines northeast of Scranton. Defying the skeptics, Jermyn bought new machines and fulfilled a contract for one million tons of coal. He then tripled his contract and was on his way to becoming the largest independent coal operator in the Lackawanna Valley.

Because of the Scrantons, thousands of Americans had new opportunities in life. If they could just capture the Scrantons' vision,

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they had a chance to succeed. One life that was made anew was that of Joseph J. Albright, the uncle of Selden Scranton. Albright was in business near Nazareth, Pennsylvania, and went bankrupt in 1850, when he was nearly 40 years old. He had to sell all his furniture at a sheriff's sale and deal with creditors from two states.

The Scranton group came to Albright's rescue and gave him a job as coal agent for their railroad. Soon Albright caught the Scrantons' vision. He was patient and invested wisely: he bought stock in the Scrantons' iron and coal company; he then joined them in building the city's gas and water system. On his own, he invested in a company to mill flour and in a firm to make locomotives. By 1872, he was worth half a million dollars and was elected president of the largest bank in the city. He had become a believer in Scranton and wanted to help the city that had given him a chance; when he died he deeded his home to the city and gave $125,000 to build a major public library.

Not everyone joined the Scranton team. Phillip Walter, another relative from Nazareth, resisted an elaborate courtship by the Scrantons in 1852. He told them he was reluctant "to pull [up] stakes and move" from "my long cherished home" because "I might fail." Winnowing out the conservative and the weak at heart, Scranton seems to have attracted a select set of venturesome leaders to guide its industrial growth.

Fostering an Open Environment

In building their city, the Scrantons consciously promoted entrepreneurship. The securing of wide city limits was part of this effort. They believed their city would grow, and they diligently planned its expansion. Along these lines, the Scrantons and their allies established a board of trade in 1867 to promote the industrial development of their city. They installed an innovative Welsh immigrant, Lewis Pughe, as the board's first president. The board actively recruited industry and even secured a law granting all new corporations tax-free status for their first ten years in Scranton.

In this open environment, Scranton grew as a manufacturing center and attracted many capitalists who were willing to take different types of risks. This made for a combination of inventiveness and creative entrepreneurship. For example, Henry Boies came to Scranton from New York in 1865 and founded the successful Moosic Powder Company; then he perfected a gunpowder cartridge that reduced the death and injury resulting from carelessness in mining explosions. Boies seemed to court risky ventures and had failed twice before coming to Scranton. Once he had made his fortune in powder, the credit lines were open, and he went to work inventing a flexible steel wheel for locomotives. He started the Boies Steel Wheel Company in 1888 to manufacture his patented invention.

Another innovation that succeeded in Scranton was Charles S. Woolworth's five-and-ten-cent store. Born in upstate New York, Woolworth, his brother Frank, and partner, Fred M. Kirby, experimented in the late 1870s with the opening of specialty stores featuring largely five-and-ten-cent merchandise. Shoppers were often skeptical of the first stores opened in Harrisburg, Lancaster, and York, Pennsylvania. In 1880, however, when Charles Woolworth set up a five-and-ten-cent store in Scranton, the idea caught on. Sales in Scranton were a modest $9,000 the first year, but the Woolworths and Kirby had laid the foundation for an empire, and Charles had found himself a new home in Scranton. A decade of brisk sales in Scranton encouraged Woolworth to start branch stores in New York and Maine in the 1890s. Kirby, meanwhile, started a profitable store in Wilkes-Barre. Soon Woolworths was selling nationally, and became a major American corporation. In Scranton, Woolworth joined with other local entrepreneurs in founding the International Textbook Company, which employed thousands of people to sell textbooks throughout the nation.

The introduction of electricity in the 1880s brought out the best in Scranton's entrepreneurs. They didn't produce Thomas Edison, but they did have Merle J. Wightman, who designed and built one of the first electric motors to run trolley cars. Scranton became one of the first cities in the nation to have an electric

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trolley system. Other Scrantonians adapted electricity to coal mining. In 1894, they founded the Scranton Electric Construction Company, which perfected and manufactured electrical apparatus (e.g., mechanical drills, locomotive hoists, and mining pumps) for use throughout the anthracite coal fields.

Scranton did not emerge inevitably as a center for manufacturing trolley motors, locomotive wheels, or textbooks. Nor was there any particular reason why Scranton should have become a major headquarters for directing a chain of five-and-ten-cent stores. Other cities throughout America had the location and transportation facilities needed for these industries. Even the making and distributing of electrical mining equipment could have been done in Wilkes-Barre or in anthracite towns other than Scranton. A key to Scranton's success seems to have been the presence of aggressive entrepreneurs, who had a philosophy of openness and a commitment to growth. As the spiral of growth in industries, services, and population persisted, the city of Scranton, which was founded on a hunch, became one of the 40 largest cities in the country by 1900.

A lot can be learned from the story of the Scrantons. The first lesson is that entrepreneurs are needed to create wealth; when they succeed, others then have the chance to build on what they started. If we look at the later history of Scranton, we also can learn a second lesson: that it is hard for those on top to stay there in the generations that follow. An inheritance can be transferred; but entrepreneurship, talent, and vision cannot be. The industrial city of Scranton saw lots of movement down the ladder of social mobility, as well as up.

This can be seen if we look at what happened to the Scranton economic elite of 1880—those men who made up the first generation of the city's industrial leadership. I collected data on the 40 men in Scranton who, by 1880, held the largest numbers of corporate directorships and major partnerships. These 40 men dominated all of Scranton's major industries. Several were millionaires; and all had access to credit and contracts, which seemingly should have insured the success of their children in Scranton, which spiraled in population from 45,000 in 1880 to 137,000 in 1920.

As founders and developers of the Scrantons' vision, these forty entrepreneurs had much to give their children. Blessed by the luck of the draw, these fortunate offspring could choose almost any career, with the security that only wealth can bring. Raised in Victorian mansions rife with servants, they often had doting parents to give them private-school education, college if they wanted, or specialized training in engineering or industry. If these children did not prosper, they could fall back on hefty inheritances. Also, as they matured, they could take advantage of Scranton's thriving marketplace to make even more money. By 1920, the sons of Scranton's 1880 leaders had ample opportunity to succeed their fathers as the pacesetters of Scranton's business world.

Fathers and Sons

Yet they did not. Few went hungry, but most could not come close to matching their fathers' achievements. Only nine of the forty economic leaders in 1880 had even one son, son-in-law, or grandson who 40 years later was an officer of even one corporation in Scranton. In short, the fathers and sons provide a stunning contrast.

Why the sons did so poorly is complicated. Some of the reasons for this startling breakdown lie in the general problem of family continuity. Six families didn't have any sons; seven others had too many—which splintered the family wealth into small pieces. In a very few cases, some sons left Scranton for business ventures elsewhere. Often the sons chose not to go into business: they led lives of brief and precarious leisure.

The fragmentation of some of Scranton's larger family fortunes seems remarkable. For example, brothers Thomas and George Dickson between them held the positions of president of a national railroad, president of the largest manufacturing company in northeast Pennsylvania, president of an iron company in New York, and vice president of the largest bank in Scranton, as well as directorships of many large companies. Yet only one of Thomas Dickson's three sons went into business; and, under his leadership, the Dickson Manufacturing Company went out of business. George

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Dickson's only child, Walter, became a salesman and held no corporate influence. The four sons of multimillionaire James Blair were nonentities. Only one of Blair's sons appears to have been gainfully employed, and his job was that of assistant cashier in his father's bank.

Even the Scrantons of Scranton were almost extinguished. George, Selden, and Joseph Scranton were the founding fathers of American rail making, but only one of their sons showed entrepreneurial skill. Selden was childless, and went bankrupt in any case. George was worth $200,000 when he died; but his sons, James and Arthur, became men of leisure, not entrepreneurs.

Joseph's son William gave business a try, but his story was often sad. Joseph was president of the Lackawanna Iron and Coal Company from 1858 until his death in 1872. But during these years, the New Yorkers bought up so much stock that William was not allowed to succeed his father as company president. Young William was restless as a mere local manager, so he studied the new Bessemer process in Europe and returned to start his own Scranton Steel Company in 1881. The city's low tax on new industries gave him an edge over the larger Lackawanna Company, but the older company won the competition and absorbed his enterprise in 1891. William did prove to be a very capable builder and operator of the Scranton Gas and Water Company. He and his son, Worthington, ran this company profitably and, in 1928, Worthington sold it for $25 million.

Dissolution and Decline

Some of the sons of Scranton's early industrialists literally squandered fortunes. Benjamin Throop, an early settler, had become a millionaire in coal land and urban real estate. His surviving son had, at best, modest business skills, and when he and his wife died prematurely in 1894, the 83-year-old Throop undertook the task of rearing his only grandchild, five-year-old Benjamin, Jr.

The elder Throop died shortly thereafter, but young "Benny" inherited a $10,000,000 fortune. Young Throop married into a prominent local family and, having no financial worries, served in World War I, but by that time his wife had divorced him and he seems to have lost any interest that he might have had in gainful employment or in the city of Scranton. During the 1920s, like a character from an F. Scott Fitzgerald novel, he spent most of his time in Paris indulging champagne tastes in cars and women. Throop died in 1935, in his mid-forties, of undisclosed stomach ailments, after apparently dissipating his grandfather's entire fortune.

Throop was a rare but not unique example of dissolution. Given the tradition of partible inheritance, many of the sons of economic leaders knew that they never would have to work, and so they became men of leisure with no business interests.

Passing the Torch

Of course, not all of Scranton's early industrialists had downwardly mobile sons. Nine of the 40 top capitalists in the Scranton of 1880 had passed the torch of leadership from father to son by 1920. In any randomly selected group of forty families, of course, some would produce sons or have sons-in-law with a flair for business. It is improbable, however, that nine of forty randomly chosen families would have corporate officers as sons. This merely shows that industrial leaders are much more likely than other groups in the population to father corporate officers. It does not show continuity of economic leadership because more than three-fourths of the industrial families of 1880 in Scranton failed to continue a line of corporate succession in the following generation.

While most of the sons of entrepreneurs stumbled, a variety of new immigrants in Scranton saw their opportunities and took them. By 1920, for example, Andrew Casey, an Irish liquor dealer, had become a bank president and a hotel magnate. Michael Bosak, a Slovak immigrant who started life as a breaker boy in the 1880s, owned banks, a manufacturing company, and a real estate firm in Scranton in 1920. Few had the talent and vision to build such empires, but those who did picked up where the city's founders had left off.

Scranton, in a sense, was America's first

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manufacturing city. It marked the spot where America began to gain its independence from British iron. During the next generation, Scranton became a showcase of remarkable entrepreneurship and industrial growth. In this relatively open environment, Scranton's economic order was fluid: upward mobility for the poor existed side-by-side with downward mobility for the rich. Entrepreneurs were prized possessions for cities and for the nation; but their vision, talent, and drive were hard to transfer from generation to generation. Most of the families of Scranton's early industrialists died out as entrepreneurs; they didn't inherit their fathers' vision and turned over the city's economic leadership to newcomers.

And so the cycle goes—which means that if Scranton is typical, then two seemingly contradictory generalizations about the rise of big business are both true. First, a small constantly changing group of entrepreneurs consistently held a large share of the nation's wealth. Second, the poor didn't get poorer, and the rich didn't get richer either. □

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Competition

It is often affirmed, and it is true, that competition tends to disperse society over a wide range of unequal conditions. Competition develops all powers that exist according to their measure and degree. The more intense competition is, the more thoroughly are all the forces developed. If, then, there is liberty, the results can not be equal; they must correspond to the forces. Liberty of development and equality of result are therefore diametrically opposed to each other. If a group of men start on equal conditions, and compete in a common enterprise, the results which they attain must differ according to inherited powers, early advantages of training, personal courage, energy, enterprise, perseverance, good sense, etc., etc. Since these things differ through a wide range, and since their combinations may vary through a wide range, it is possible that the results may vary through a wide scale of degrees. Moreover, the more intense the competition, the greater are the prizes of success and the heavier are the penalties of failure. This is illustrated in the competition of a large city as compared with that of a small one. Competition can no more be done away with than gravitation. Its incidence can be changed. We can adopt as a social policy, "Woe to the successful!" We can take the prizes away from the successful and give them to the unsuccessful. It seems clear that there would soon be no prizes at all, but that inference is not universally accepted. In any event, it is plain that we have not got rid of competition—*i.e.*, of the struggle for existence and the competition of life. We have only decided that, if we cannot all have equally, we will all have nothing.

Competition does not guarantee results corresponding with merit, because hereditary conditions and good and bad fortune are always intermingled with merit, but competition secures to merit all the chances it can enjoy under circumstances for which none of one's fellowmen are to blame.

—WILLIAM GRAHAM SUMNER

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Booker T. Washington: Apostle of Freedom

by Robert A. Peterson

"Political activity alone cannot make a man free. Back of the ballot, he must have property, industry, skill, economy, intelligence, and character."

These words were spoken by a man raised in slavery. Yet in this man's philosophy lies the key to freedom. His name: Booker T. Washington.

Born in 1856 in Franklin County, Virginia, Booker Taliaferro Washington spent his earliest years as a slave. Of his father he knew nothing. "I do not even know his name," wrote Washington in his *Autobiography*. "Whoever he was, I never heard of his taking the least interest in me or providing in any way for my rearing." Yet he harbored no grudges. "He was simply another unfortunate victim," wrote Washington, "of the institution which the Nation unhappily had engrafted upon it at that time."[1]

When emancipation came, it was like a plunge into cold water: refreshing but sobering. Washington sensed the implications of freedom even as a small boy. In his *Autobiography* he wrote: "The wild rejoicing on the part of the emancipated coloured people lasted but for a brief period, for I noticed that by the time they returned to their cabins there was a change in their feelings. The great responsibility of being free, of having charge of themselves and their children, seemed to take possession of them. It was very much like suddenly turning a youth of ten or twelve years out into the world to provide for himself. In a few hours the great question with which the Anglo-Saxon race had been grappling for centuries had been thrown upon these people to be solved."[2] Washington early on recognized that freedom means responsibility as well as privilege.

Soon after emancipation, Washington and his family moved to Malden, West Virginia, where his stepfather worked in a salt furnace. Put to work beside his father, young Washington seemed destined for a life of drudgery. Yet he persuaded his parents to let him attend school before and after work. Following a regimen that would have killed someone with less determination, Washington seemed to run on adrenaline around the clock.

Washington soon outgrew the school at Malden. Hearing of the Hampton Institute in Virginia, where blacks could work their way through school, he set out at the age of sixteen with only a few dollars in his pocket. When he arrived, the teacher told him to sweep the room. Characteristically, he swept it three times and dusted it four. As he later said: "I had the feeling that in a large measure my future depended upon the impression I made upon the teacher in the cleaning of that room."[3] In at least one aspect, it was a more accurate assessment than any Scholastic Aptitude Test or Graduate Record Examination: it revealed character. After the teacher inspected

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TUSKEGEE UNIVERSITY

Booker T. Washington, 1856–1915

the room, she told Washington: "I guess you will do to enter this institution."

While at Hampton, Washington came into contact with a truly great man, Samuel T. Armstrong. Armstrong, a Northern general, dedicated himself to rebuilding the South through education when the war was over. Of him Washington wrote: "One might have removed from Hampton all the buildings, classrooms, teachers, and industries, and given the men and women there the opportunity of coming into daily contact with General Armstrong, and that alone would have been a liberal education. The older I grow, the more I am convinced that there is no education which one can get from books and costly apparatus that is equal to that which can be gotten from contact with great men and women. Instead of studying books so constantly, how I wish that our schools and colleges might learn to study men and things."[4] To pay his board, Washington worked as a janitor and a waiter. To fit himself for a trade, he studied masonry. So greatly did he impress the administration and trustees of Hampton that after graduation he was appointed as an instructor.

Meanwhile, at Tuskegee, Alabama, George Campbell, a white merchant, conceived the idea of a training school for blacks. When he wrote to Hampton for a suggestion for a principal, Booker T. Washington was recommended. Accepting the position, Washington arrived in Tuskegee only to find an old, worn-out field. The school itself was little more than a distant vision in Campbell's mind. But Washington caught that vision, and set to work laying the groundwork for what would become one of the nation's most unique schools.

Washington set up shop in a small church, sallying forth into the surrounding counties to look for prospective students. Eventually 30 students enrolled in Washington's Tuskegee Normal and Industrial Institute. Appropriately, the first term began on July 4, 1881. It was symbolic, for at Tuskegee poor blacks would get a chance to learn skills that would make them truly free—skills that would make them valuable members of the American economy. At Tuskegee, not only did every student study Western culture, every student had to work with his hands. "The individual who can do something that the world wants done will, in the end, make his way regardless of his race."[5]

During Tuskegee's formative years, Washington confronted deep-seated prejudice and misconceptions from both blacks and whites. Many whites felt that an educated Negro wouldn't work, while many blacks protested against making manual labor a part of the Institute program. Washington attacked these views by teaching that there is as much dignity in tilling a field as in writing a poem.

Private philanthropy made it possible for Washington to accept every student who came, regardless of whether he could pay. White citizens of Tuskegee made donations, as did poor blacks who lived in the area. As Washington's fame spread, and Tuskegee's along with it, some of the money from America's great captains of industry found its way to Tuskegee. Railroad magnate Collis P. Huntington gave over $50,000, while Andrew Carnegie donated enough to build a library, and later, a $600,000 gift. In making the latter gift, Carnegie wrote of Washington, "To me he seems one of the foremost of living men because his work is unique."[6]

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The school was an unqualified success. As a pioneer of vocational education, Tuskegee paved the way for similar institutions for both blacks and whites. In 1908, Washington pointed out that "it was the Negro schools in large measure that pointed the way to the value of this kind of education."[7] At each commencement, visitors were pleased and amazed to see the graduates go through their paces. "I have never seen a commencement like Tuskegee's before," wrote Mary Church Terrell. "On the stage before our eyes students actually performed the work they had learned to do in school. They showed us how to build houses, how to paint them, how to estimate the cost of the necessary material and so on down the line."[8]

Soon other talented blacks began to gather around Booker T. Washington, including George Washington Carver. Calling his laboratory at Tuskegee "God's Little Workshop," Carver reduced the South's dependence on cotton, which depleted the soil, by finding over 300 uses for peanuts. Largely financed by the private sector, Carver's research gave a great boost to American agriculture.

Nonpolitical Solutions to the Problems of the South

In every area of life, Washington sought nonpolitical solutions to the problems of blacks and the South. Thus, instead of more Federal troops and more bureaucracy, Washington advocated private initiative. In his *Autobiography* he wrote:

> Though I was but a little more than a youth during the period of Reconstruction, I had the feeling that mistakes were being made, and that things would not remain in the condition that they were in then very long. I felt that the Reconstruction policy, so far as it related to my race, was in large measure on a false foundation, was artificial and forced. In many cases it seemed to me that the ignorance of my race was being used as a tool with which to punish the Southern white man by forcing the Negro into positions over the heads of the Southern whites. I felt that the Negro would be the one to suffer for this in the end. Besides, the general political agitation drew the attention of our people away from the more fundamental matters themselves in the industries at their doors and in securing property.[9]

So important was obtaining property in Washington's mind that he advocated property ownership rather than literacy as a test for the exercise of the franchise. Washington understood that without property, there could be no individual rights. Not black power, or white power, but "green power"—economic power—was the key to ending discrimination.

Washington had been tempted to enter political life, but reason eventually triumphed over expediency:

> The temptations to enter political life were so alluring that I came very near yielding to them at one time, but I was kept from doing so by the feeling that I would be helping in a more substantial way by assisting in the laying of the foundation of the race through a generous education of the hand, head, and heart. I saw colored men who were members of the state legislature, and county officers, who, in some cases, could not read or write, and whose morals were as weak as their education.[10]

This is not to say that Washington did not believe in political activity, for over the years he was instrumental in getting blacks appointed to important posts, including William H. Lewis as Assistant Attorney General and Robert Terrell as a municipal judge.[11] But he believed and acted upon the principle that no great movement can be effected from the top down, but that it must be built up from the ground floor. Before national victories could be won, victories had to be won at the grass roots.

This was the philosophy that Washington espoused when he was asked to speak at the Atlanta Exposition in 1895, the first time a black leader had been invited to speak to a large group of whites in the Deep South. Washington urged blacks to "cast down your bucket where you are" in agriculture, mechanics, and other fields, "and get to work." He then told the white audience: "In all things that are social we can be as separate as the fingers, yet one as the hand in all things essential for mutual purposes."[12]

One might say that we are as separate as the fingers, yet one as the hand in all things essential for mutual progress. It is the combination of localism, ethnic variety, and individualism that helps to maintain freedom in America. Booker T. Washington understood this. Unfortunately, many other reformers have not.

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The Booker T. Washington Monument at Tuskegee University. The inscription reads: "He lifted the veil of ignorance from his people and pointed the way to progress through education and industry."

Washington came under attack from other black leaders, for his speech seemed patronizing. Actually, he had caught the true spirit of capitalism: service to one's fellowman. In the free market, he who serves the best generally will be successful.

In spite of his controversial Atlanta speech, Washington's fame continued to grow. Honors came from near and far. Theodore Roosevelt sought his advice, as did President Charles W. Eliot of Harvard, who presented him with the first degree awarded by that university to a Negro.

Washington's constant traveling and speaking added to an already overburdened schedule. His wife and associates begged him to slow down. His reply: "No—there is so much to do, and time is so short." It was even shorter than he thought. In November 1915, Booker T. Washington died of a heart attack at the age of 59. At his death, Tuskegee had over 60 buildings and an endowment of nearly three million dollars. Both the school and the man were internationally famous.

Unfortunately, much of the foundation Booker T. Washington laid was to be undone by government intervention. Minimum wage laws have made it more difficult for blacks to find jobs.[13] Welfare programs have mitigated against the most important economic unit in society—the family. And affirmative action programs have often served to increase white animosity toward blacks.[14]

Despite these setbacks, the example of Booker T. Washington still remains. His achievements show that it is possible for someone—no matter what his race—to come "up from slavery" and become a truly free man. As Washington put it: "Each one should remember there is a chance for him, and the more difficulties he has to overcome, the greater can be his success."[15] May he still inspire us today. □

1. Booker T. Washington, *Up From Slavery* (New York: Airmont Edition, 1967), pp. 15-16.
2. *Ibid.*, p. 26.
3. *Ibid.*, p. 43.
4. *Ibid.*, p. 44
5. *Ibid.*, p. 99
6. Benjamin Quarles, *The Negro in the Making of America* (New York: Macmillan Pub. Co., 1964, 1969), p. 166.
7. Washington, quoted in Quarles, p. 167.
8. Mary Church Terrell, quoted in Quarles, pp. 166-167.
9. Washington, quoted in Michael R. Lowman, et. al., *Heritage of Freedom* (Pensacola, Fla.: Beka Book Publications, 1982), p. 317.
10. *Ibid.*, p. 318.
11. Quarles, p. 171.
12. Washington, quoted in Russell L. Adams, *Great Negroes: Past and Present* (Chicago: Afro-Am Publishing Co., 1984), p. 137.
13. Walter E. Williams, *Youth and Minority Unemployment* (Stanford, Calif.: Hoover Institution Press, 1977), p. 14.
14. Thomas Sowell, *Ethnic America* (New York: Basic Books, Inc., Pub., 1981), p. 223.
15. O. K. Armstrong, "Apostle of Goodwill," in *Great Lives, Great Deeds* (Pleasantville, New York: The Reader's Digest Association, 1964), p. 291.

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Helping the Poor

by Jane S. Shaw

Many of us are old enough to remember when, back in the 1960s, author Michael Harrington introduced the nation to the "invisible poor." After reading his book *The Other America,* we realized that poor people were all around us. We just hadn't noticed them.

One of the accomplishments of the 1960s war on poverty and the continued growth of government welfare programs is that now we do notice the poor. It's nearly impossible to go through a major city without seeing a person who is or appears to be homeless. While controversy surrounds the actual number, clearly there are more homeless than there used to be. As of 1985, 14 per cent of the U.S. population had incomes below the poverty level; the percentage was 12.1 in 1969. Our government funds, it seems, have bought more poverty.

But government programs are only part of the problem. Being homeless and hungry has become something admirable. Each year, as winter approaches, and especially around the holidays, television and newspaper reporters seek out and interview the homeless. Advocates for the homeless such as Mitch Snyder in Washington, D.C., begin campaigns to attract money and shelter.

The abject poor become objects not only of sympathy but even of respect. They are portrayed as having a "special significance," as Peter Marin wrote in *Harper's,* January 1987. He said that the homeless "are all we have left to remind us of the narrowness of the received truths we take for granted." Some months ago, celebrities and politicians slept overnight on grates in the streets of Washington to publicize the plight of the homeless and win support for a new Federal program. In effect, they lauded the homeless as stoic heroes who survive society's neglect night after night.

This adulation is a cruel distortion. While certainly some of the "grate people" have overcome tremendous difficulties, by and large they have not overcome! At this point in their lives, they are losers.

Some are former mental patients who may never be self-sufficient. Others are not so different from the rest of us. But they have made serious mistakes that must be corrected if they are ever to lead normal lives. They have left school, run away from home, or quit jobs—and ended up on the streets. They desperately need incentives to rebuild their lives. Unfortunately, we are taking away their incentives.

To let sympathy turn to acceptance of their state puts a stamp of approval on their self-destructive behavior.

There is a better way. Three years ago, I left New York City for a small town in southwestern Montana. Suddenly, I was back in the 1960s with Michael Harrington where the poor are almost invisible.

Montana is a low-income state. Its mining industry is dying; its agriculture is usually marginal; growth industries are almost nonexistent. Attracted by the scenic beauty, people come to Bozeman and then try to figure out how to make a living. Many have a difficult time.

The minimum wage —or less—is often the market wage. Young people with master's degrees in architecture and journalism wait on tables or clean motel rooms. Literally hundreds of people apply for each teaching job.

But poor people are not obvious the way they are in New York and Washington. Just about everyone has *some* place to live. If it is a

Jane S. Shaw, a senior associate of the Political Economy Research Center in Bozeman, Mont., has helped provide free breakfasts and shelter at St. Bartholomew's Church in New York City.

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PAT WATSON

Jane McCommack checks pantry supplies at Chapel Rock Christian Church. Food is donated by members.

trailer, well, many Montanans live in trailers. The same applies to old houses where the plumbing is poor. And when poor people shop at the Salvation Army Thrift Store, they mingle with their more affluent neighbors rummaging for a bargain.

For those who truly need help, we have an abundance of charity, just as big cities do. Churches supply food, a help center provides counseling, and a senior citizens' center serves older people. Big Brothers and Big Sisters help troubled children. We have the Salvation Army.

But there is a difference. Unlike charity in big cities, help is given quietly and anonymously. Those who donate at church and elsewhere don't know who receives their donations.

I contend that all are better off as a result.

Writing in the nineteenth century after visiting Britain, the great social observer Alexis de Tocqueville became disillusioned with what he called "public charity" or welfare. To obtain public charity, people's names were inscribed on the parish welfare rolls. These inscriptions, he said, were "a notarized manifestation of misery, of weakness, of misconduct." The people on the rolls were permanently marked as paupers; their debasement was public, and they lost the will to better their condition.

Instead, he argued, charity should be given "secretly and temporarily." He believed that people who quietly received temporary help would retain an incentive to move into (or back into) the mainstream of society. That, I believe, is what happens in Bozeman.

Michael Harrington, the designers of the English poor laws, and many of us in 20th-century America seem to have forgotten that poverty can be a transient condition. Today's poor need not be poor tomorrow. The tragedy is not so much that the poor exist but that, in our big cities, they come to a halt on the bread line. □

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A REVIEWER'S
NOTEBOOK

All It Takes Is Guts

by John Chamberlain

Walter Williams, who teaches at Virginia's George Mason University and writes a syndicated newspaper column on the side, is usually referred to as a black economist. I would prefer it if he were called a good economist who happens to be black. He is "free market" to his bone marrow, a devotee of Hayek and Mises, and he doesn't miss a bet in scoring points against interventionism wherever it rears its ugly head.

Naturally, since he is black, his attention is frequently directed to the consideration of how bad economics hurts his fellow blacks. His *All It Takes Is Guts: A Minority View* (Regnery Gateway, 1130 17th Street, NW, Washington, DC 20036, 189 pp., $16.95 hardback), a collection of his sharp newspaper columns, returns again and again to such topics as quotas, comparable worth laws, and the minimum wage. These are things that lower standards of living for everybody, save for a favored few, but they work particular hardship on blacks as the most vulnerable individuals in society.

Williams objects to quotas in hiring because, as it seems to him, their use comes within the scope of a bill of attainder. They fix blame for past wrongs to blacks on people who had nothing to do with the original injustices. In a column titled "Quotas are Unconstitutional" Williams takes, for an example, "the white kid who's denied admission to a particular college in order to meet quota requirements for a black kid." "How," he asks, "is that white youth accountable for slavery and past oppression of blacks?" The wrong done to the white kid is obvious. But the black kid who is favored is hurt, too. He will be suspected of getting a diploma without really qualifying for it.

To universalize his approach to the harm done by quotas, Williams applies his arguments to women and to minorities in general. He is particularly scathing about judges who use busing to establish arbitrary racial mixes in schools.

The minimum wage has been a prime preoccupation with Williams for ten years. He objects to it on logical grounds: no sensible company is going to hire people for long whose contribution is not worth their keep. The logic of the Williams approach is amply buttressed by statistics. Anybody who is unskilled can have a hard time if minimum wages are set too high, but black teenagers who have had poor schooling are particularly vulnerable.

"Economists," says Williams of the minimum wage, ". . . differ on how much unemployment is caused by it." But they agree on the fact that black teenage unemployment has been increasing for a decade. It is now around fifty per cent, more than double that of white teens.

The big unions, says Williams, like minimum wage laws for selfish reasons. The laws keep the unskilled out of the labor markets. But

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the unions here are shortsighted. Mechanization is the obvious answer of the employer who can't afford the luxury of hiring high-wage union labor. Williams devotes several good columns to the question of comparable worth. He is particularly amused by the feminists' efforts to equate secretarial skills and truck driving. Point systems may be devised to equalize them, but the market will rule in the end simply because those fitted to drive trucks are less numerous than potential stenographers.

Protectionism is another topic that gets caustic attention in typical Williams columns. The plight of specific steel workers arouses his compassion, but costs, he says, are costs. The benefit side of steel protection is that profits will momentarily rise as a tariff goes into effect. But Williams points to the cost side. "Manufacturers of steel-using products," he says, "face higher input prices. One effect is to raise the price of such goods as autos, washing machines and filing cabinets. If these goods cost more, consumers buy fewer of them. That results in reduced employment in those industries. So the tariff on foreign steel shifts unemployment from the steel industry to some other industry."

Williams has made several trips to South Africa. He was disgusted with apartheid, but he has never seen the sense of applying sanctions to South African industry. Where sanctions are effective, they only succeed in putting blacks out of work. Williams horrified many of his listeners in South Africa when he said the two sides in the fight over apartheid deserve each other. They are both stupidly socialist in Williams' opinion.

On South Africa's government-owned television Williams pointed out that the leadership of the country "is ignorant of the economic definition of socialism, which is government ownership and/or control over the means of production. In South Africa, the government owns coal-to-oil conversion plants, railroads, the telephone company, and other major industries. Through licensing and regulation it controls all enterprises from banks, gold mines, and insurance companies to supermarkets. It even tells its citizens when they may buy toilet tissue, soap, and dog food."

Williams found that white businessmen in South Africa would love to hire more blacks, but the law thwarts them "in the name of maintaining 'labor peace.' Racist labor unions and other vested interests use government to get laws written which bar blacks from competing. Blacks are not allowed to open businesses in white areas. But . . . whites are not allowed to open businesses in black areas either."

Black South Africans follow Archbishop Tutu in speaking out against capitalism and for socialism. At the same time they answered "yes" to such questions as "Do you think you should be able to purchase property where you want?" Williams decided that blacks in South Africa were really for capitalism without knowing it.

"The most constructive step the South African government can make," says Williams, "is to own up to the fact that it is a socialistic regime. In fact, socialism is the number one enemy of the entire continent of Africa." The history of sub-Saharan Africa seems a particular scandal to Williams. "Uganda," he says, "won independence in 1962. But black rule didn't bring freedom and prosperity. Instead, under Idi Amin, more than 50,000 blacks were murdered. . . . The same story of oppression and murder repeats itself whether it is in the newly formed government of Zimbabwe, Zaire, the Central African Republic, Mozambique, or the never-colonized Ethiopia."

Americans must condemn South African apartheid, says Williams, but "the solutions to Africa's problems go far beyond the mere installation of a black government to replace a white one." The Zulu chief Gatsha Buthelezi may have the answer. He would apply the thinking of James Madison to the South African situation, with tribal rights substituted for states' rights, and with a Bill of Rights protecting the individual of whatever color. □

ALL IT TAKES IS GUTS by Walter Williams is available in hardcover at $13.95 (plus $1.00 U.S. mail or $2.00 UPS shipping and handling). To order, write Laissez Faire Books, Department F, 532 Broadway, New York, NY 10012-3956. (212-925-8992).

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THE FORDS: AN AMERICAN EPIC
by Peter Collier and David Horowitz

Summit Books, 1230 Avenue of the Americas, New York, NY 10020.• 1987 • 496 pages • $22.95

Reviewed by Russell Shannon

Perhaps a more fitting subtitle for Peter Collier and David Horowitz's new account of the Ford family would be the title Winston Churchill chose for the final volume of his World War II memoirs: *Triumph and Tragedy*. Surely, Henry Ford's mass production of the Model T ranks as one of the supreme triumphs of American entrepreneurial history. Yet the subsequent development of both Ford's industrial domain and his descendants' lives is riddled with tragedy.

The first Henry Ford, whose father had emigrated from Ireland to America during the potato famine of the 1840s, was far more than simply one of the first builders of an automobile. He was also the epitome of the innovator, determined to make a commercial success of a car whose selling price lay within the grasp of ordinary Americans.

To this end, Ford's assembly line production was clearly the key. Although Collier and Horowitz do not indicate that Ford ever read Adam Smith (in fact, the flaws in his knowledge of history were appalling!), a statement Ford made in 1903 reads like the sequel to the first few pages of *The Wealth of Nations*: "The way to make automobiles," Ford said, "is to . . . make them all alike . . . , just as one pin is like another when it comes from a pin factory."

Much as Adam Smith's famous pin makers benefited from the division of labor, Ford's auto workers vastly improved their productivity when the first assembly line was established at the Highland Park plant in 1913: from the 12½ hours previously required to assemble a Model T, the time dropped drastically to 1½ hours.

Ford cut prices on his cars, but costs were so low and consumer demand was so elastic that profits soared. At the insistence of his assistant, James Couzens, Ford then agreed to raise his workers' pay to $5 a day, making it easier for them to afford a Ford. But the company reaped

Henry Ford, 1863–1947:
"The way to make automobiles is to make them all alike. . ."

further benefits, for the increased pay reduced labor turnover and lowered production costs. What splendid testimony to the validity of Adam Smith's argument that the pursuit of self-interest and social benefit can go hand in hand.

Sadly, however, as he grew older, Ford engaged in increasingly bizarre and brazen behavior. When some workers violated his demands for staunch loyalty by purchasing General Motors cars, they were fired. When other workers flirted with the fledgling United Auto Workers, Ford sped up the assembly line in reprisal—"causing a syndrome involving exhaustion and despair which eventually became known in Detroit medical circles as 'Fordits.' "

Henry's only son, Edsel, who had become largely responsible for much of the company's operations, advocated accommodation with the labor union, but his arguments fell on deaf ears. As a result, much bloody strife ensued. Edsel was also one of those who repeatedly urged his father to confront the growing rivalry of Chevrolet by introducing more new models. But Henry constantly balked, allowing his

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company's market share to fall dramatically and depriving consumers of fresh options.

Collier and Horowitz suggest that Ford's life had Shakespearean overtones. Certainly, there are parallels with the bard's tragic heroes, for Henry often seemed to be playing King Lear to his son's Cordelia, ignoring Edsel's wise counsel while others at the Ford factories pandered to his idiosyncracies.

Overcome by denial and frustration, Edsel succumbed to cancer at a premature age. Henry's grandchildren suffered from alchoholism and other problems. The burden of their inheritance proved too great, calling to mind the remark Andrew Carnegie made in his "Gospel of Wealth" back in 1889 that "great sums bequeathed often work more for the injury than for the good of the recipients."

Yet despite the fiasco of the Edsel model, grandson Henry Ford II finally was able to set the company firmly on its feet by emulating managerial practices of its arch-rival General Motors. An internal system of checks and balances limited the scope for individual power and abuse. Henry II also removed the Ford family from automatic control of the company and turned it over to professionals.

In fact, the image of the phoenix is appropriate for the recent success of the firm. *Fortune* magazine reported in its issue for January 4, 1988, that "Ford has captured U.S. leadership in styling and reputation for quality. Last year Ford passed the General in profits for the first time since 1924 . . . ."

What has all this to say about free markets? Would a system of stricter and more pervasive government control have prevented some of the problems and abuses? Perhaps, but clearly that proposal poses an even more awesome threat.

At least in a free market system, consumers and workers have a greater range of choice. Surely, it was partly the *competition* of automotive rivals which prompted changes in Ford's management system and design quality.

In the end, what really causes the reader to shudder is the thought: what would have happened if a man like Henry Ford I had become our *king*? Had that been the case, then not just one automotive empire but our whole nation could have been bound by tragedy. □

(Professor Shannon teaches in the Economics Department at Clemson University.)

September FEE Seminar Schedule

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Mark your calendar now! Invitations will be mailed this month.

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The ideal of freedom is to let anyone do anything he pleases, as long as his behavior is peaceful, with government empowered to keep the peace—and nothing more. An ideal objective, true, but one that must be pursued if we would halt the continuing descent of our society from bad to worse. Nothing short of this will suffice. And unless we fully understand the ideal—and what makes for its attainment—we'll tend to settle for powerless, futile little pushes and shoves that yield no more than a false sense of something done.

—Leonard E. Read

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"Epochs of faith, are epochs of fruitfulness; but epochs of unbelief, however glittering are barren of all permanent good."

—JOHANN WOLFGANG VON GOETHE

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